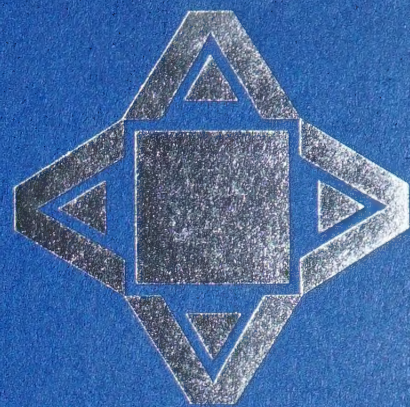


GREENSTARR

AR34



ANNUAL
REPORT
1976

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Form 10-K

Genstar Limited is incorporated under the laws of Canada. The company's shares are traded on the New York Stock Exchange among others and the company files an annual report on Form 10-K with the Securities and Exchange Commission, Washington, D.C. This report is available free of charge to shareholders on request to the Secretary of the company.

Version Française

Les actionnaires qui désirent recevoir ce rapport en français sont priés d'en faire la demande au Secrétaire de la Société.

Two-Part Annual Report

The 1976 Annual Report is in two parts. Book I contains a review of the company's operations while Book II contains the financial statements and notes to financial statements. Both are essential parts of the 1976 Annual Report.

FINANCIAL HIGHLIGHTS

	1976 (Millions)	1975	Increase (Per cent)
Revenues	\$ 888.3	\$ 721.5	23.1
Funds from Operations	93.8	77.1	21.7
Depreciation, Depletion and Amortization	32.3	26.5	21.9
Net Income	55.7	47.2	18.0
Dividends on Common Shares	14.7	13.6	8.1
Net income per common share — Basic	\$4.63	\$4.03	14.9
— Fully Diluted	4.18	3.61	15.8
Dividends per common share	1.25	1.20	4.2

Annual Meeting

The Annual and Special General Meeting of Genstar Limited will be held on Monday, April 25th, 1977 at 10:00 a.m. in the Auditorium, Mezzanine 2 of The Royal Bank of Canada Building, One Place Ville Marie, Montreal, Canada. Meetings of holders of Genstar preferred shares as a class, and Series A, B, C and D, will be held immediately following the Annual and Special General Meeting at the times specified in the Notice of Meeting.

What is Genstar?

Genstar Limited is a diversified operating company which manufactures cement, building materials, chemicals and fertilizers, and is engaged in housing, land development, commercial property development and management, construction, tug and barge transportation, shipbuilding and ship repairs, import-export of industrial minerals, and venture capital investment.

DIRECTORS

*Charles de Bar
Deputy Chairman of the Board
Genstar Limited

Yves Boël
Managing Director
Sofina, S.A.
(Investment Company)

James W. Burns■
President and Chief
Executive Officer
The Great-West Life
Assurance Company

Frank S. Capon**
Consultant

*F. Campbell Cope, Q.C.**
Partner
Ogilvy, Montgomery, Renault,
Clarke, Kirkpatrick, Hannon
& Howard
(Barristers and Solicitors)

John S. Duthie
Director
The Associated Portland Cement
Manufacturers Limited

*August A. Franck
Chairman of the Board
Genstar Limited

Kelly H. Gibson
Chairman of the Board
Westcoast Transmission
Company Limited
(Gas Transmission)

John B. Hamilton, Q.C.
Senior Partner
Hamilton, Torrance
(Barristers and Solicitors)

Louis A.-Lapointe, Q.C.
Chairman of the Board
Miron Company Ltd.
(Cement, Building Materials
and Construction)

Raymond Lavoie**
Vice Chairman of the Board,
President and Chief
Executive Officer
Crédit Foncier Franco-Canadien
(Financial Institution)

Walter F. Light
President
Northern Telecom Limited
(Telecommunications Equipment
Manufacturer)

*Angus A. MacNaughton
Vice Chairman of the Board and
Chief Executive Officer
Genstar Limited

*W. Earle McLaughlin
Chairman and President
The Royal Bank of Canada

John D. Milne
Managing Director
The Associated Portland Cement
Manufacturers Limited

Max Nokin
Honorary Governor
Société Générale de Belgique
(Investment Company)

Robert G. Rogers
Chairman of the Board and
Chief Executive Officer
Crown Zellerbach Canada Limited
(Pulp and Paper Products)

Saul Simkin
Chairman of the Board
Kins Management Limited
(Consultants)

*Ross J. Turner
President and Chief
Executive Officer
Genstar Limited

William S. Ziegler
Consultant

*Member of the Executive Committee

**Member of the Audit Committee

■Elected Feb. 1977

OFFICERS

August A. Franck
Chairman of the Board

Charles de Bar
Deputy Chairman
of the Board

Angus A. MacNaughton
Vice Chairman of the Board
and Chief Executive Officer

Ross J. Turner
President and
Chief Executive Officer

Walter S. Bannister
Executive Vice President

J. Leonard Holman
Executive Vice President

Bernard T. Johnson
Executive Vice President

George F. Michals
Senior Vice President

Beverly A. Monkman
Senior Vice President

George W. Rutledge
Vice President

Lorimer E. Whitworth
Vice President

A. James Unsworth
Vice President and
General Counsel

Hugh W. McAdams
Treasurer

E. Claude Molleur
Secretary

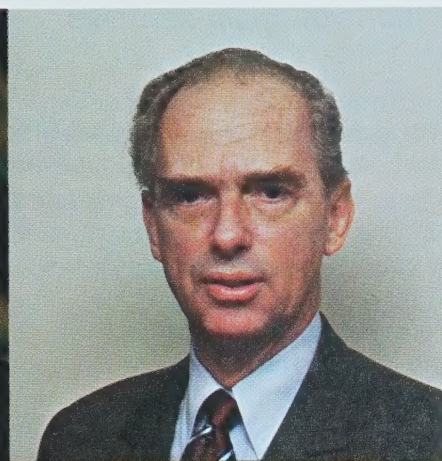
Richard D. Paterson
Comptroller

Kenneth L. Merson
Assistant Treasurer

Eric A. Bower
Assistant Comptroller

J. Anthony Davies
Assistant Treasurer

Stuart Mackay-Smith
Assistant Secretary



August A. Franck
Chairman of the Board

Charles de Bar
Deputy Chairman of the Board

Angus A. MacNaughton
Vice Chairman of the Board
and Chief Executive Officer

Ross J. Turner
President and
Chief Executive Officer

REPORT OF THE DIRECTORS

Earnings

The company's housing and land development operations in Canada and the United States were primarily responsible for the overall increase in earnings in 1976. The cement, building materials and construction operations also made significant contributions to the increase in earnings while income from the marine group was down from 1975. The chemical and fertilizer operations registered a loss for the year but income from the California venture capital division was ahead of 1975.

Net income for the year rose to \$55.7 million, or \$4.63 per common share from \$47.2 million, or \$4.03 per common share a year earlier. The quarterly dividend was increased to 35 cents for the fourth quarter from 30 cents previously.

Significant Events

Several key events in 1976 have set the course for the company over the coming years.

Early in the year the Foreign Investment Review Agency ruled that for purposes of the Act, Genstar would be considered a Canadian company, and would not, therefore, be required to make application to that Agency when acquiring other Canadian companies.

In July the company purchased 62.4 per cent of the outstanding shares of Abbey Glen Property Corporation from Capital & Counties Property Company Limited of London, England, and by early 1977 had acquired all the remaining outstanding minority shares. Total cost of this acquisition was \$79 million of which \$72 million was in cash and \$7 million in preferred shares.

Substantially all of Abbey Glen's residential buildings were sold in February this year for \$59 million. The proceeds were applied to reduce Abbey Glen's debt as part of a continuing program to improve and strengthen Genstar's balance sheet. For a more lengthy discussion of the Abbey Glen acquisition and its effect on Genstar's operations and finances please refer to page 6 of Book I of this report.

While construction work continues on the new \$100 million Vancouver cement plant, the decision to proceed with a major \$60 million expansion of the Edmonton cement plant is an indication of the importance of this basic commodity in Genstar's industrial product mix and the company's optimistic view of the economic future of Western Canada.

Our investment of \$30 million to date, and an additional \$16 million in 1977, in international marine operations is a reflection of the potential the company sees in this business.

As a principal in Arctic Transportation Limited, Genstar participated in the acquisition by ATL of the Kaps

Transport Limited marine division on the Mackenzie River. This acquisition was made in expectation of providing services to continuing resource developments in the Arctic and the Mackenzie River delta regions.

A new company in which Genstar is a 75 per cent partner with Costain Concrete of the U.K., opened a \$5 million concrete rail tie production plant in Edmonton, the first of its kind in North America, to service this new and expanding market.

Capital Expenditures

Capital expenditures in 1976 totalled \$90 million and included \$24 million on the new Vancouver cement plant, \$4 million to complete the concrete rail tie plant in Edmonton, \$17 million on equipment for international marine operations, and \$10 million on three concrete pipe plants and one concrete block plant. The remainder was for mobile equipment replacement and plant modernization programs in various divisions.

In 1977, capital expenditures are expected to total \$135 million, the largest portion of which will be spent on the Vancouver and Edmonton cement plants (\$80 million), completion of equipment commitments to international marine joint ventures (\$16 million) and an expansion of the gypsum wallboard plant in Edmonton (\$2 million). A further \$37 million will be spent on equipment replacement and modernization of facilities.

Labor Relations

The company has collective labor agreements with over 100 bargaining units in its various divisions. Operations in 1976 were directly affected by only one strike involving 20 employees in the Eastern Canada marine division. However, several of our divisions, especially in British Columbia and to a lesser extent in Quebec, were affected indirectly by strikes resulting from a breakdown in industry-wide negotiations.

More significant to the company's results are work stoppages which affect the operations of our major customers. Construction trades and other strikes in British Columbia and Quebec in 1976 combined with poor economic conditions had an adverse effect on some Genstar operations in these provinces.

The Anti-Inflation Program

One of the most serious effects of the Canadian government's anti-inflation program, viewed in the light of over a full year's experience of controls on prices and incomes, is the decline in business investment in Canada. Controls on profits and a lack of business confidence in the wisdom of government actions in many fields have all had a negative effect on investment decisions and, consequently, unemployment remains at a high level.

Because of the controls which are part of the anti-inflation program, Genstar's full profit potential was not realized during the year.

While initially in agreement with the need for a frontal attack on inflation, which reached a new high in mid-1975, we expressed our concern over a year ago on the lack of constructive tax incentives as a stimulus to the economy. Business investment and consumer spending must be stimulated by means of incentives to provide added strength to the economy.

In our opinion, the anti-inflation program should be terminated as soon as possible and measures should be taken to alleviate the resulting pressures and disruptions. These measures should be accompanied by a program aimed at reducing the cost of government at all levels.

Outlook

The economic picture for Canada in 1977 is still rather cloudy but there is little doubt that provincial economies will vary markedly in strength. Briefly, the Prairie provinces of Manitoba, Saskatchewan and Alberta, where Genstar has major housing, land development, cement and building materials operations, are expected again to provide a solid economic base for 1977. Some improvement in building materials and marine results is expected in British Columbia as the economy of the province recovers slowly from the doldrums of the last two years. The economy of Quebec is expected to be weak again in 1977.

While Canadians will have to come to grips with a number of serious economic problems in 1977, we have some grounds for optimism because the areas in which we have major operations, as in Western Canada, are likely to perform better than the economy as a whole.

International marine operations, based on contractual work on hand, should prove profitable and operations in California, where the economy is expected to continue to support strong growth in housing and real estate markets, will help balance soft spots in other geographical areas.

Board of Directors

Having reached retirement age, Mr. August A. Franck relinquished his responsibilities as Chief Executive Officer of Genstar.

The Directors would like to record their appreciation and thanks to Mr. Franck for his untiring efforts and invaluable services to the company over the past thirteen years. Mr. Franck remains as Chairman of the Board and a Director and will continue to make available his experience, counsel and wisdom to the company.

We are pleased to welcome four new members to the Board of Directors. They are Mr. James W. Burns of Winnipeg, Mr. Kelly H. Gibson of Calgary, Mr. John B. Hamilton, Q.C. of Toronto, and Mr. Walter F. Light of Montreal.

Mr. Burns is President, Chief Executive Officer, and a Director of The Great-West Life Assurance Company, Winnipeg, and a Director of The Investors Group.

Mr. Gibson is Chairman of the Board of Westcoast Transmission Company Limited of Vancouver, Foot-hills Pipe Lines Ltd. and Westcoast Petroleum Ltd. both of Calgary.

Mr. Hamilton is a senior partner in the law firm of Hamilton, Torrance; Chairman of the Board of Abbey Glen Property Corporation, Toronto, and Chairman of the Executive Committee of CP Air, Vancouver.

Mr. Light is President and a Director of Northern Telecom Limited of Montreal and a Director of The Royal Trust Company and Hudson's Bay Oil and Gas Company Limited.

Genstar People

The success of our operations in 1976 is a direct tribute to the loyalty, initiative and hard work of Genstar people in all divisions. Whatever problems had to be faced in 1976 were met with ingenuity and determination, qualities which are essential to any successful venture. Members of the Board recognize the importance of this contribution to the continuing success of the company and join us in expressing our thanks to all the people of Genstar for their loyal and effective efforts.

On behalf of the Board



Angus A. MacNaughton
Vice Chairman

Montreal, Canada
February 16, 1977



Ross J. Turner
President

ABBHEY GLEN

Background

Abbey Glen Property Corporation, an amalgamation of Great Northern Capital Corporation and Western Realty Projects Ltd., was controlled by Capital & Counties Property Company Limited, a London-based international real estate company. It was from Capital & Counties that Genstar purchased 62.4 per cent of Abbey Glen in July, 1976 for \$49 million cash.

Since that time, the company has acquired all of the remaining outstanding minority shares of Abbey Glen for \$23 million cash and \$7 million of preferred shares. Holders of Abbey Glen share purchase warrants and convertible debentures continue to have the right to acquire Abbey Glen Class A Shares under the terms and conditions originally attached to these instruments. The Class A Shares may then be converted to Genstar Series D Preferred Shares on the basis of 10 Class A Shares for three Genstar Series D Shares until December 31, 1986.

The acquisition of Abbey Glen, the sixth largest real estate company in Canada, has added significantly to Genstar's balance sheet assets. Its operations are financed primarily by long and short-term debt secured by specific and floating charges on Abbey Glen's assets.

Assets of Abbey Glen

At December 31, the Abbey Glen assets were made up of \$147 million of land, \$183 million of income-producing properties and \$65 million of other assets including receivables, joint ventures and a house manufacturing plant in Woodstock, Ontario.

Of the total land holdings of 17,000 acres, approximately 13,000 acres are for future residential development and the balance are for industrial and commercial development. Geographically, the land, in terms of dollar cost, is located as follows:

	% of Total Investment
Western Canada	48
Eastern Canada	32
United States	20
	100%

Revenue-producing properties consist of approximately nine million square feet of rentable area in the form of apartment buildings, office buildings, hotels and shopping centers. The geographic distribution of these properties in terms of dollar cost is as follows:

	% of Total Investment
Western Canada	62
Eastern Canada	29
United States	9
	100%

There are no revenue properties under development at the present time.

Genstar and Abbey Glen

As a leading land developer and house builder in Canada, it is important for Genstar to ensure a continuous supply of developable residential land for the future. The Abbey Glen land holdings complement Genstar's and the company is currently studying its expanded land holdings with a view to developing as much as possible in as short a time period as possible to meet market conditions in Western Canada.

The Ontario land holdings are situated in the Oakville and Burlington areas and provide an entry into the most densely populated area of Canada. Genstar built its first homes in Ontario in 1976.

In the United States, approximately 2,000 acres of land are located in New Jersey and 1,100 acres of zoned residential land are located in Florida. The acquisition of these holdings enables Genstar to consider the expansion of its land development and house-building activities in the Eastern United States.

To reduce the amount of debt in the real estate development and investment operations, a program of rationalization of certain Abbey Glen income-producing properties is under way. As an initial step in this direction, most of the apartment buildings were sold in February, 1977 for \$59 million.

FINANCIAL REVIEW

Statement of Income

Net income in 1976 totalled \$55.7 million, an increase of \$8.5 million over 1975. Per common share, net income increased 15 per cent to \$4.63 compared to \$4.03 last year. Dividends amounted to \$1.25, an increase of five cents over 1975 and are now at an indicated quarterly rate of 35 cents per share. Revenues were \$888 million for the year, an increase of 23 per cent over 1975.

Over the five-year period 1972-1976, revenues and net income per common share increased at compound annual rates of 26 and 31 per cent respectively.

The results for 1976 include the operations of Abbey Glen Property Corporation from July 28. Abbey Glen incurred a net operating loss in the five-month period of ownership.

Also reflected in 1976 net income are the following items:

- the sale, at book value, of Markle Steel Company, a Texas-based steel wholesaler and fabricator.
- interest expense on the cost of construction-in-progress on the Vancouver cement plant totalling approximately \$1.2 million net of tax. The company follows the practice of not capitalizing interest on any fixed assets under construction.
- foreign exchange translation loss of \$2.0 million after tax representing the unrealized loss on translating the accounts of foreign subsidiaries into Canadian dollars.
- gains on sales of fixed assets of \$2.0 million after tax. These gains resulted primarily from the sale of excess marine assets and trade-ins and sales of mobile equipment.
- interest costs of \$1.9 million after tax for financing the cash portion of the purchase price of Abbey Glen.

Balance Sheet

\$385 million of assets were added to the consolidated balance sheet upon the acquisition of Abbey Glen. The Abbey Glen assets consist primarily of land and revenue-producing properties classified as current or long-term assets on the consolidated balance sheet, depending upon Genstar's intention of their future use.

Therefore, \$76 million of land holdings have been included in inventories because these lands are intended to be developed and sold within the five-year operating cycle of the land development business and \$101 million of revenue properties have been classified as current assets because they are expected to be sold by the end of 1977.

Mortgages and debentures of Abbey Glen have been classified as current or long-term, reflecting the classification of the related assets.

Fixed asset additions in 1976 amounted to \$90 million or, in aggregate, \$250 million in the five-year period 1972-1976.

A total of \$131 million of new long-term debt was issued in 1976 — \$50 million of 11¼ per cent debentures for general corporate purposes, \$42 million in the form of a bank term loan to fund part of the Abbey Glen acquisition, \$15 million of marine equipment financing, and the balance for miscellaneous land purchases.

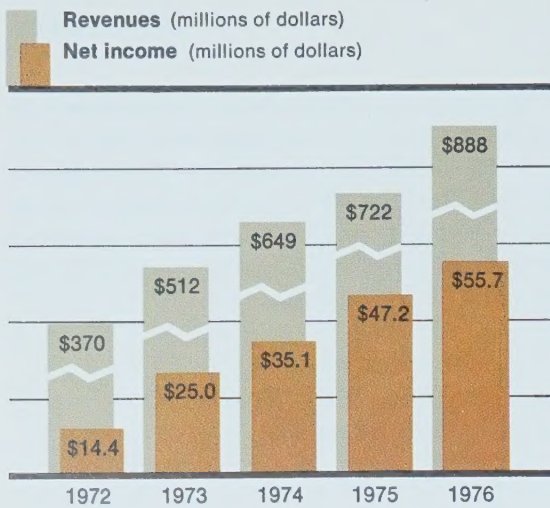
Series D preferred shares with a value of \$7 million were issued as part of the purchase price of Abbey Glen. In addition, \$6 million of common stock was issued in 1976, \$3 million of which represented conversions from long-term debt.

Return on Net Assets and on Equity

Return on net assets has been used by Genstar as a basic measurement of performance. This percentage is calculated by dividing after-tax income before interest by net assets made up of shareholders' equity, deferred income taxes and all interest-bearing debt. The resultant percentage is a measure of the return achieved on all capital employed before taking into account the cost of capital.

In 1976, return on year-end net assets was 7.30 per cent compared to 10.38 per cent in 1975. Return on net assets in 1976 would have been 9.18 per cent if the net asset base was adjusted to include the net assets of Abbey Glen on a weighted average basis from the date of acquisition.

Return on common shareholders' equity for 1976 was 18.82 per cent compared with 19.05 per cent for 1975.

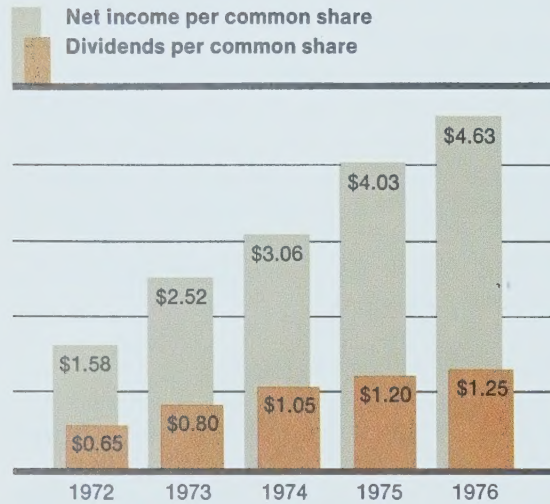


Return on Revenues

In the four years from 1972 to 1975, income before income taxes as a percentage of revenues increased from 7.83 per cent to 11.71 per cent and in 1976, the return dropped to 11.58 per cent. This reduction arises from a decline in margin attributable to the Canadian government's anti-inflation program (which has limited revenue increases to increases in costs) as well as to lower margins in the chemical and fertilizer operations, partially offset by improved foreign operations.

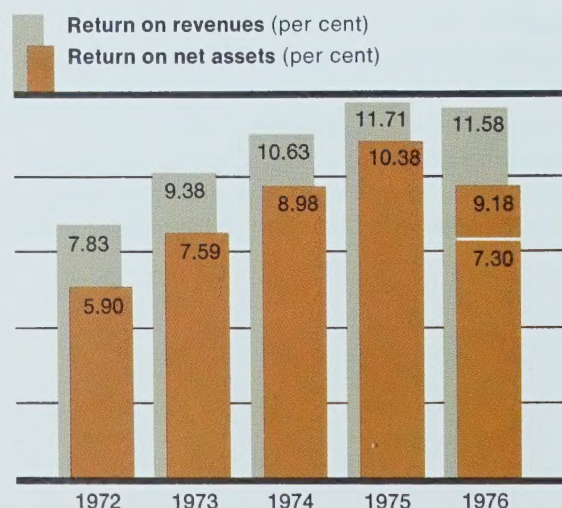
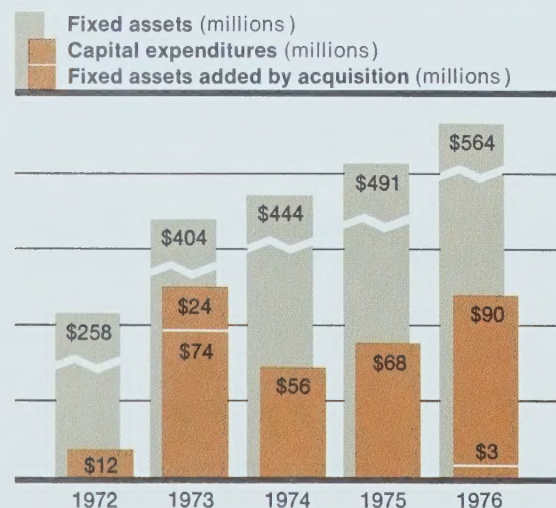
Working Capital

Working capital at the end of 1976 totalled \$112 million compared to a restated \$103 million at the end of 1975. Working capital ratio decreased from 1.44:1 in 1975 to 1.22:1 in 1976 primarily as a result of the consolidation of Abbey Glen with its real estate development oriented financial structure.



Debt to Equity

Each of the industries in which Genstar operates has historical capitalization ratios which have become generally accepted over time. When these industrial categories are combined, debt to equity ratios tend to be high in comparison to the financial structure of a manufacturing company, the standard against which Genstar is often measured. The table at the top of page 9 shows a comparison of debt to equity ratios for Genstar.



* Assuming Abbey Glen included on a weighted average basis.

	1976		1975	
	Total Debt to Equity	Long-Term Debt to Equity	Total Debt to Equity	Long-Term Debt to Equity
Genstar consolidated	68:32	53:47	49:51	39:61
Genstar excluding Abbey Glen	50:50	44:56	49:51	39:61

On a comparative basis, total debt to equity ratio for Genstar has increased only slightly to 50:50 from 49:51 last year. Upon consolidation of Abbey Glen, the total debt to equity ratio increases to 68:32 reflecting the financial structure of Abbey Glen leveraged at 78:22.

Of the seven industrial categories in which Genstar

operates, the building materials, cement, chemicals and fertilizers and investments categories are considered to be manufacturing and are capitalized in the same ratio of debt to equity. The following table of deemed capitalization combines these industrial categories and indicates an allocation of capital to them and the other industrial categories for 1976.

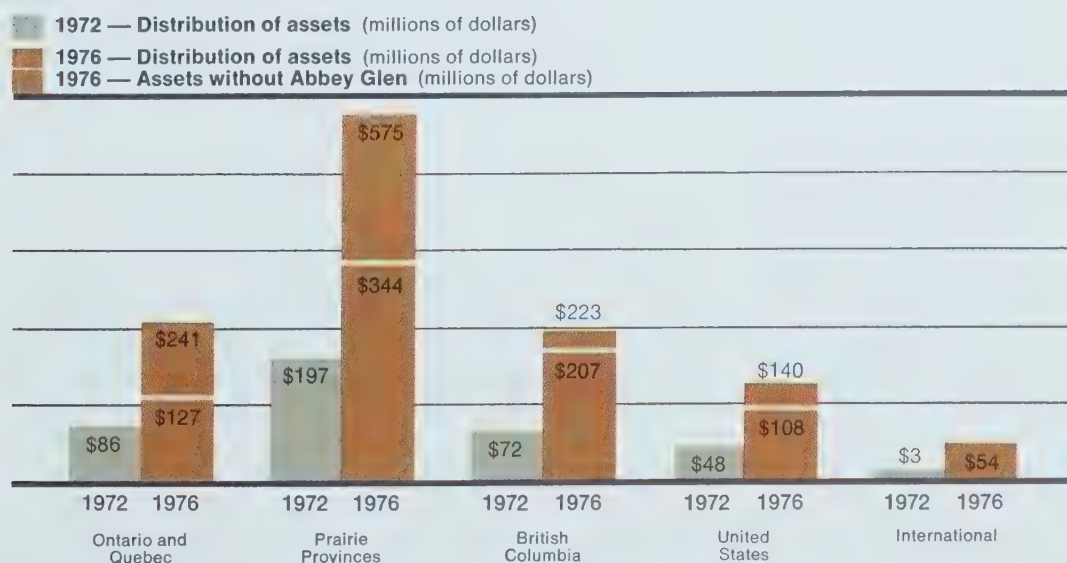
	Total Company	Manufacturing	Real Estate	Construction	Marine
(millions of dollars)					
Capitalization					
Current debt	304	30	263	7	4
Long-term debt	363	91	206	8	58
Equity	316	151	129	15	21
	\$983	\$272	\$598	\$ 30	\$ 83
Ratios					
Total debt to equity	68:32	44:56	78:22	50:50	75:25
Long-term debt to equity	53:47	38:62	61:39	35:65	74:26

Geographic Presence

Genstar is a Canadian company with most of its business in Western Canada. In the past five years, the company's total assets have increased three-fold and in the past year, they were increased by \$385 million upon the acquisition of Abbey Glen. The chart below, of total asset growth, shows the assets located in each geographic region. The lower portion of the 1976 column represents the value of assets by geographic

region without the assets of Abbey Glen. Based on the pre-Abbey Glen total assets, there has been almost a three-fold increase in assets in British Columbia, a doubling in the United States and a large commitment to international operations, particularly in marine activities in the Middle East. The company intends to continue to diversify geographically in the coming years, particularly into the United States.

ASSET GROWTH 1972-1976



THE ECONOMY

Canada

1976 was a mixed year for Canada. Despite a reduction in the rate of inflation and a general lowering of interest rates, the economy never quite reached the level of activity originally anticipated at the beginning of the year. Business confidence was adversely affected from the outset by government control measures and restrictions on investment by foreign companies. The cancellation or postponement of many large public projects resulting from cutbacks in government spending at all levels, combined with this lack of business confidence, resulted in a substantial reduction in the number of new jobs created and a consequent rise in unemployment. On the international scene, the benefits derived from a healthy rise in export volumes were offset by an increasing deficit in international payments, and the Canadian dollar, bolstered by domestic interest rates considerably above those in the U.S., remained at an artificially high level against its U.S. counterpart until the last quarter of the year.

Growth in 1977 GNP is likely to be below that of 1976 and as a result, unemployment is expected to rise beyond the present level of 7½ per cent. Business confidence will continue to lag, and investment is expected to be flat compared to the previous year. International payments are also expected to continue to be a matter for concern during the year, and the Canadian dollar will most likely remain within a narrow range below the value of the U.S. dollar.

Most of Genstar's Canadian activities are in the Prairie provinces and British Columbia with smaller operations in Ontario and Quebec. With this deployment of assets, the fortunes of the company relate more to regional economic factors than to the Canadian economy as a whole. Following, therefore, is a brief review of the economic prospects for specific provincial markets of particular interest to Genstar.

British Columbia

The economy of the province is expected to grow at a slightly higher rate than the national average, but one of the key factors in the achievement of this growth forecast is the peaceful settlement of the large number of labor contracts up for renegotiation. The improvement in the U.S. economy will pave the way for an increase in mining and lumber production, but the pulp and paper industry is likely to remain depressed. The construction industry will again have to operate in a tight market as the provincial government continues to limit spending on public works.

The Prairie Provinces

Saskatchewan, Manitoba and Alberta are all heavily dependent on agriculture as a source of income and this sector of the economy is not expected to be as

strong in 1977 as in 1976. Rapidly rising farm incomes have been one of the prime sources of the above average growth rates of these provinces over the past few years.

The industrial sector of the Saskatchewan economy is small in absolute terms but is growing at a steady pace and will continue to benefit the province's construction industry in 1977. The province's growth rate is expected to be just above the national average.

Growth in Manitoba is expected to be about the same as the national average in 1977 with the housing industry still buoyant and the construction industry benefiting from continuing involvement in provincial government hydro-electric development.

Alberta has been the fastest growing and most prosperous of all Canadian provinces because of its natural resources, and prosperity and growth are expected to continue in the near future. While growth in 1977 will again be above the national average, it may be at a lower rate than 1976.

Ontario and Quebec

The economy of Ontario, more heavily dependent on the secondary manufacturing and processing industries, accounts for 40 per cent of Canadian GNP. Prospects are for healthy growth in export trade with the United States, but otherwise, it will be a rather sluggish year. A surplus of unsold houses and empty office space is not likely to disappear before 1978.

The short-term economic prospects for Quebec appear rather bleak. Business confidence is low and provincial economic growth is expected to be below the national average. In the long-term, the province faces a number of key structural problems to which solutions must be found if the economy is to be put back on a healthy footing.

California

The continuing inflow of people into California from other parts of the United States provides a strong growth base for the State's economy and for Genstar's housing and real estate operations. Rising consumer confidence and lower interest rates created a strong market for homes in 1976 which will carry over into 1977.

Summary

While some form of government stimulation of the Canadian economy is expected early in 1977, growth in the provinces of Western Canada — Manitoba, Saskatchewan, Alberta and British Columbia — is expected to be above the national average while the Eastern provinces are expected to grow at rates equal to or below the national average. The economy of California is expected to show good growth again in 1977.

GENSTAR OPERATIONS



BUILDING MATERIALS

Net income for the building materials division increased marginally over 1975. Markets in the Prairie provinces were exceptionally strong for all products, but operations in British Columbia and Quebec suffered from poor economic conditions and construction industry labor problems.

Capital expenditures for the division totalled \$22 million in 1976 of which \$10 million was for the construction of concrete pipe manufacturing plants in Vancouver, Edmonton and Winnipeg and a concrete block manufacturing plant in Montreal. \$4 million was spent on completion of the concrete rail tie manufacturing plant in Edmonton and the remainder was for mobile equipment and modernization of plant facilities.

Capital expenditures for the division in 1977 will total \$14 million for upgrading of production facilities and mobile equipment replacement.

Sales of ready-mix concrete, concrete blocks and pipe, sand, gravel and classified aggregates are expected to increase in 1977 in the Prairie provinces with some improvement in sales volumes and margins in B.C. as well. Revenue increases will again be limited by anti-inflation regulations. The outlook for Quebec is uncertain and markets for concrete products could be affected by prospective cutbacks in both government and private spending.



Gypsum Wallboard

Company plants producing gypsum wallboard in Saskatoon and Edmonton operated on a three-shift, five-day per week basis throughout the year and the new Vancouver plant started a third shift in March. The increase in house building was mainly responsible for the favorable results from these operations and the outlook for 1977 is for continuation at a high level of production as commercial construction takes up some of the expected slack in the housing field. The Edmonton wallboard plant will be expanded in 1977 at a cost of \$2.2 million.

Precast Concrete Products

Sales of precast concrete were strong again in 1976 throughout the Prairie provinces. British Columbia suffered from poor economic conditions and labor problems in the construction industry.

A forecast increase in overall volume of precast products in 1977 is based partly on the addition of concrete rail ties to the product line. The \$5 million plant which began operation in Edmonton during the third quarter of 1976 will produce 300,000 precast concrete rail ties per year over a five-year period to fill a \$40 million contract awarded the company in 1975 by one of Canada's major railroads.

The economies of the Prairie provinces are expected to remain healthy in 1977 and some improvement is expected in B.C., but there will be greater pressure on profit margins due to increased competition from other materials and from other precast concrete producers.

Left: Precast concrete components incorporated in architectural design

Center: Concrete railway ties offer long service

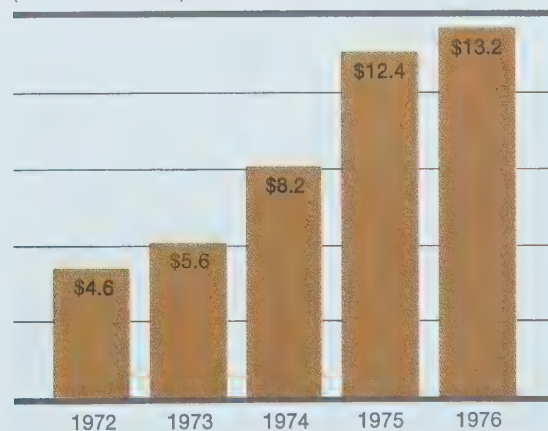
Right: Reinforcing frame for concrete pipe



Revenues
(millions of dollars)



Net income
(millions of dollars)



CEMENT

The company's cement plants in Western Canada operated at near capacity levels throughout 1976 in order to supply the strong demand in the Prairie provinces where already booming economies were further aided by excellent construction weather. Again in 1976, cement had to be imported from Eastern Canada and the United States to meet this demand. Production and deliveries in B.C. were firm throughout the year with a strike at a competitor's plant resulting in additional demand-supply pressures.

Work on the new Vancouver, B.C. plant was on schedule despite some interruption due to construc-

tion industry work stoppages in the province. Capital expenditures on the 1.1 million tons per year plant totalled \$35 million to the end of 1976 and will be approximately \$64 million in 1977. The plant is scheduled to be in production in early 1978 and will add 530,000 tons per year to total Genstar capacity after the closure of the Bamberton, B.C. plant.

During the year work began on the first phase of a \$60 million expansion of production facilities at the company's Edmonton plant. Installation of an electrostatic precipitator to provide the basic dust collection system for an additional kiln is in progress. This part of the program will cost \$3.7 million and installation of a clinker grinding mill, clinker storage and cement shipping silos, truck loading facilities and electrical feeder stations will cost an additional \$16 million. When the expansion is completed in the early 1980's, the plant's production capacity will be increased by more than 80 per cent, raising Genstar's total capacity to over 3,700,000 tons per year from 2,775,000 at the end of 1976.



The economies of the Prairie provinces, especially Alberta, where there has been virtually no letup in construction activity over the past several years, will require a continuing high level of production. Profit margins in 1977 will be squeezed as a result of substantial increases in the cost of energy and restrictions on selling prices.

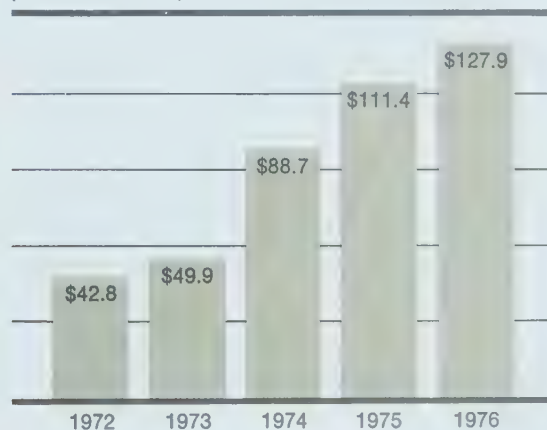
Effects of the post-Olympic slowdown in Quebec were offset to some extent by shipments of cement from the company's Montreal plant to Western Canada and these shipments are expected to increase marginally in 1977. Exports of clinker to the Northeastern United States were disappointing, but a modest increase is expected in 1977.

For the division as a whole, 1977 will be a year of strong demand.

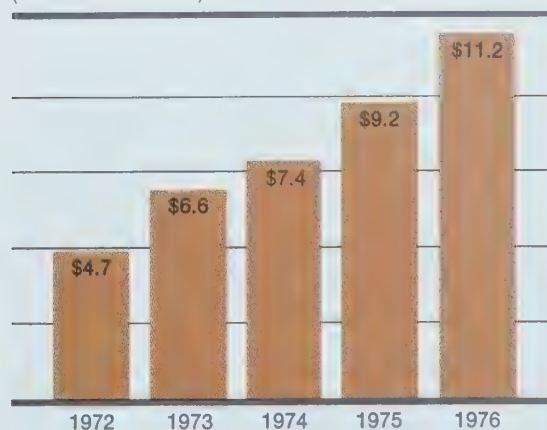


*Left: Limestone quarrying in Montreal
Center: Bulk cement delivery in Western Canada
Right: Storage silos for new Vancouver cement plant*

Revenues
(millions of dollars)



Net income
(millions of dollars)



HOUSING AND LAND DEVELOPMENT

Income from housing and land development operations in Canada and the United States was primarily responsible for the increase in earnings in 1976 for the company as a whole.

Housing

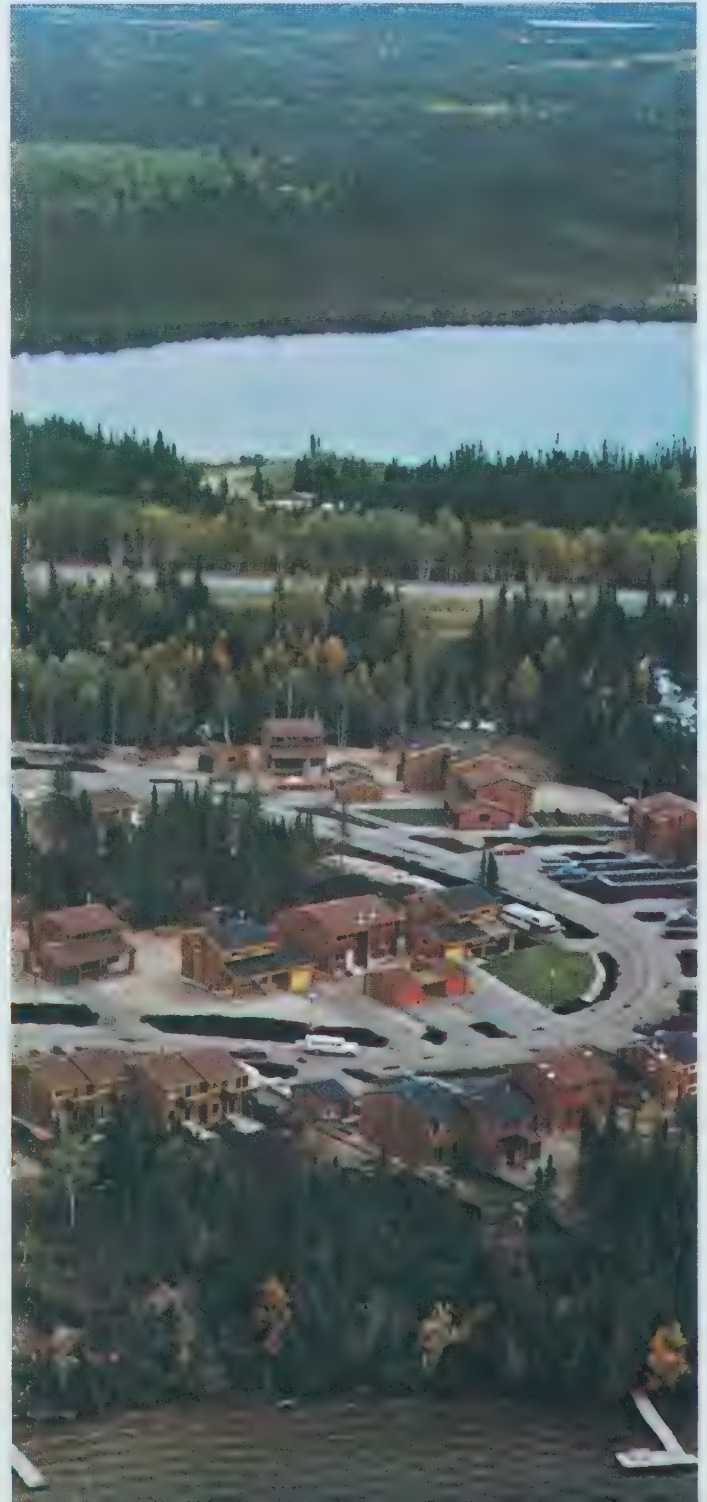
Demand for housing in the company's major markets in Western Canada was exceptionally strong throughout the first half of the year with some softening during the second half.

Both Genstar house building companies in Western Canada made an initial move into the field of "affordable" housing. This is a new market for Genstar and is likely to become a more important one over the next several years.

Housing markets in Western Canada, assisted by the current trend toward lower mortgage interest rates, are expected to be better than in the second half of 1976.

Markets in British Columbia should also improve this year and help balance weaker markets elsewhere in the West

In 1976 the company established house building operations in Ontario on a limited scale. Branch offices were opened in Hamilton, Kitchener, Cambridge and Guelph. Some building is expected to begin on company land in Burlington in 1977 and the company's home manufacturing plant in Woodstock will continue to supply other areas of the province.



The company's California housing division enjoyed a record year as unit sales more than doubled from 1975 and it appears that the strong demand for homes is continuing into 1977.

In January, the official opening of the Crow Canyon Country Club project in the San Francisco Bay area, launched the sales program for this 1,000 home development.

New projects coming on line in 1977 and 1978 include two in San Diego County, four in Orange County, one in Los Angeles County and three in Northern California. These new projects represent over 4,000 homes to be constructed over a period of three to four years.

The company is also involved in joint venture projects whose sales of single family and condominium housing units in 1977 will total approximately 700.

Overall, housing markets in California are expected to be at least as strong in 1977 as in 1976, especially in Orange County, still the company's major market in the State.

Shopping Center Development

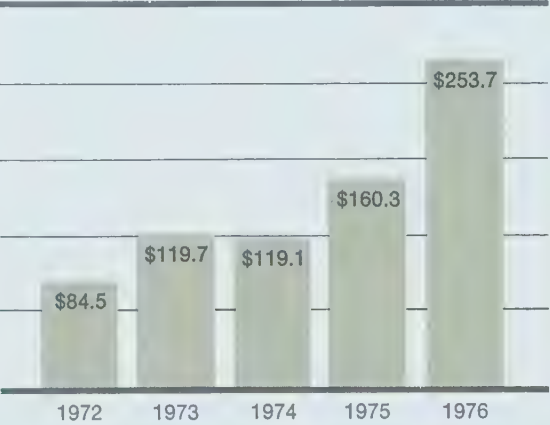
Genstar's shopping center division showed increased earnings through the sale of two neighborhood centers and residual properties in ten other centers it has developed. New centers in California and Washington are now being developed and are expected to contribute to earnings in 1977.

This division is diversifying its activities and now has three industrial projects under way as well as several hundred homes under development in joint venture projects.

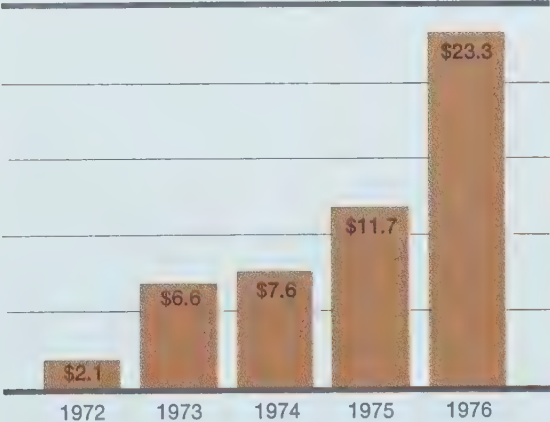
*Left: Housing for the average-income family in Calgary, Alberta
Center: Resource town housing in Northern Ontario
Right: Factory assembled house components speed up on-site completion*



Revenues
(millions of dollars)



Net income
(millions of dollars)



Land Development

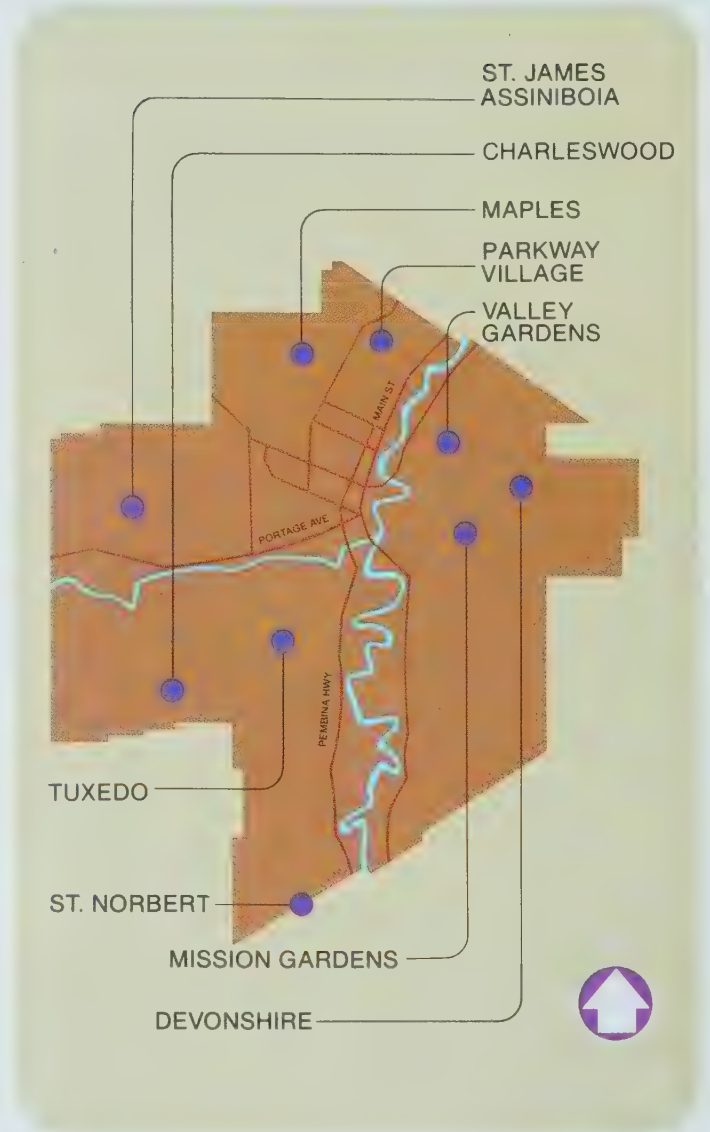
With the acquisition of Abbey Glen, Genstar's land bank in Canada and the United States now totals approximately 44,000 acres. The company's requirements are under continuing review to ensure that land inventories are in line with operational requirements.

The company will continue its policy of providing as much serviced residential and commercial land as possible to the building industry at large in addition to meeting the needs of its own house building activities.

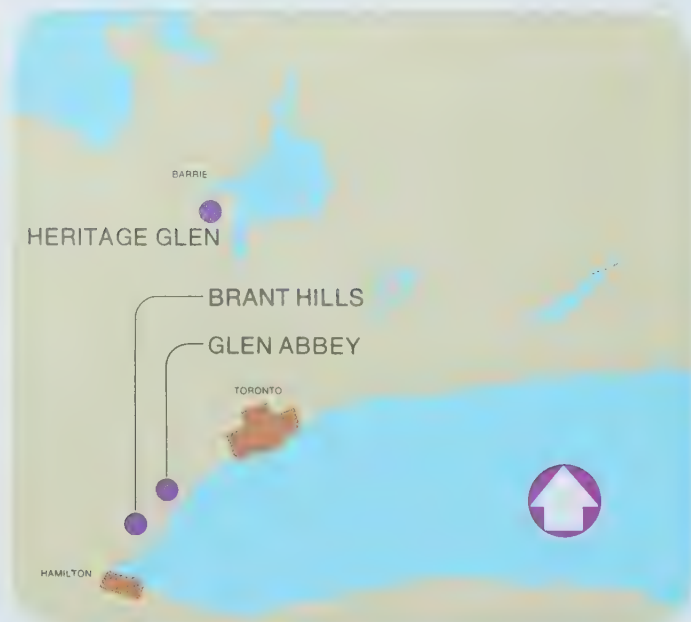
While land development projects in Eastern Canada continue as planned, Abbey Glen operations in Western Canada have been integrated with Genstar's existing land development operations to permit optimum use of management expertise and in-house capability in future planning. This integration will also result in a substantial increase in the production and sale of serviced land for residential and commercial purposes.

Genstar continues to develop new concepts in the use of land in order to provide attractive life styles for the average family. Servicing of three new major communities began in the summer of 1976: Deer Run in Calgary, Devonshire Place in Winnipeg and Eagle Ridge in the Greater Vancouver area. Genstar projects in Western Canada presently under development or in various stages of completion, 75 in all, will eventually provide housing for some 150,000 to 200,000 people.

Winnipeg



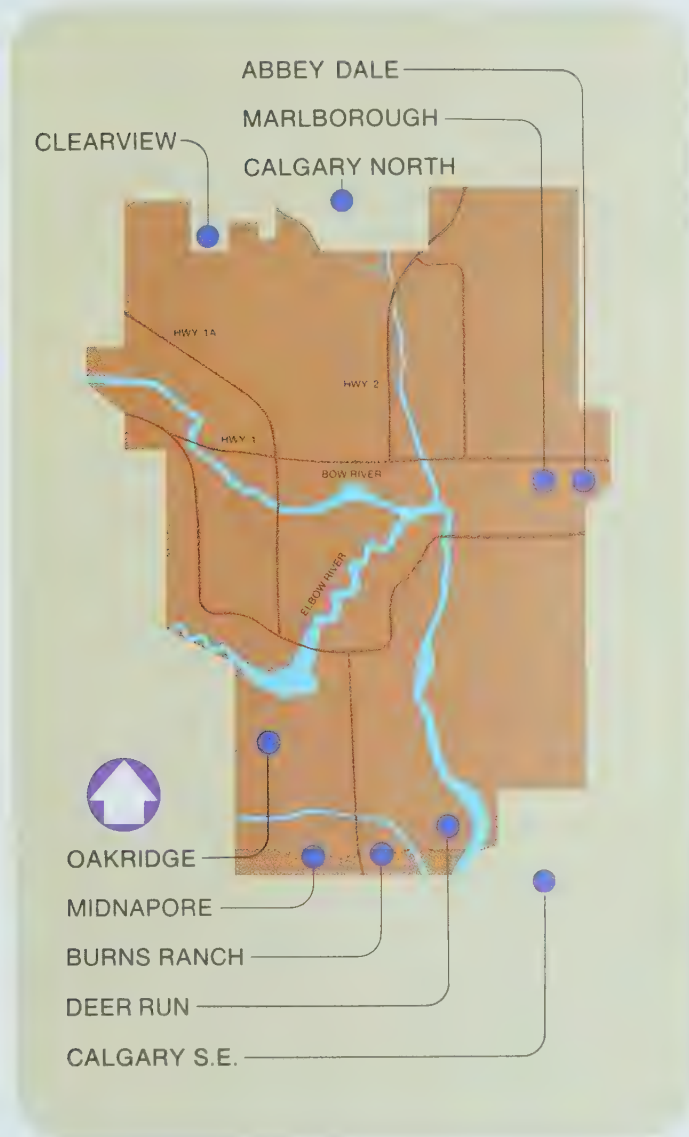
Southern Ontario



Vancouver Island



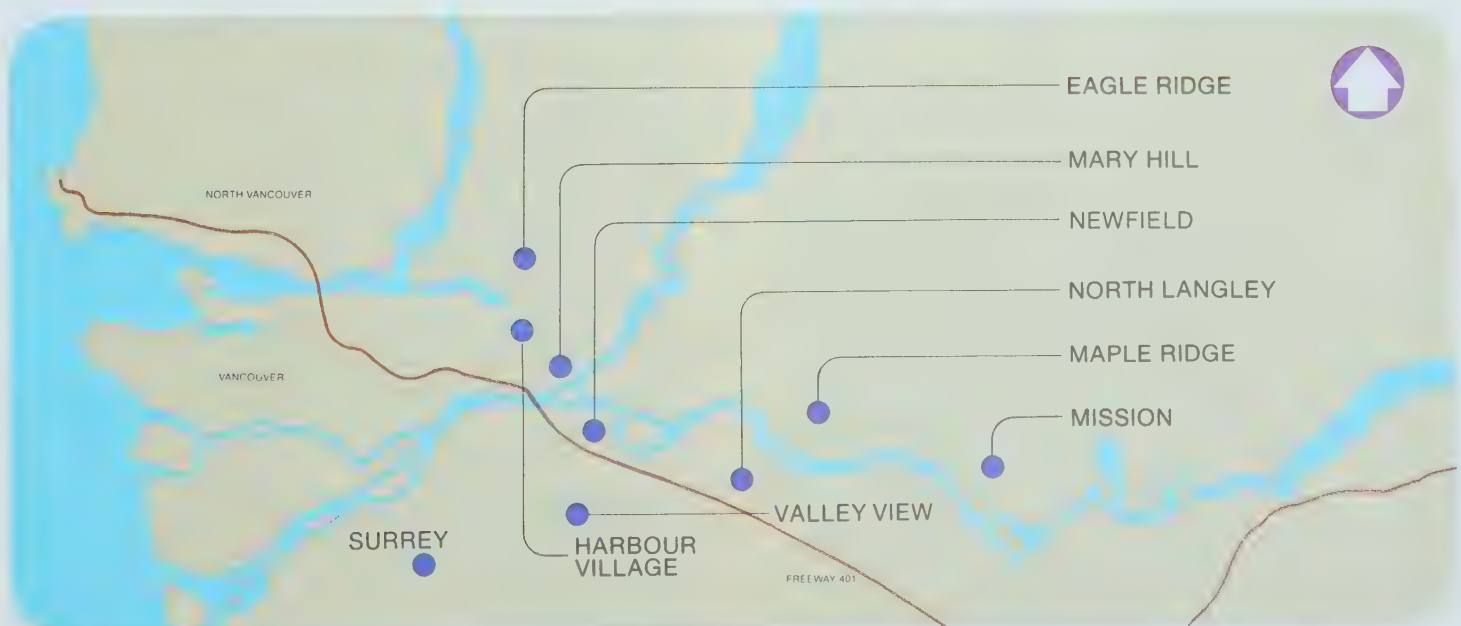
Calgary



Edmonton



Pacific Region



CONSTRUCTION

Genstar's construction operations in Western Canada achieved more satisfactory margins on work performed in 1976. Moreover, the company also received settlements on previously completed contracts and these funds were added to the division's income for the year. It is Genstar's policy not to recognize such claims until settlement is received.

Heavy construction contracts completed during 1976 included work on the Jenpeg dam and powerhouse and two transmission line projects in Manitoba; site preparation at the Syncrude oil recovery plant, and sewer and water installations at Fort McMurray in Northern Alberta.

The backlog of heavy construction work on hand at year-end totalled \$63 million and includes an extension on the Jenpeg contract and joint venture contracts awarded by Manitoba Hydro for work at Long Spruce and Limestone, on the Nelson River; completion of a water treatment plant at Churchill, Manitoba; continuing work on the new Genstar cement plant in Vancouver, the Montreal subway system, and mine site development work in Northern Ontario.

The company's municipal services division, which accounts for approximately 60 per cent of total construction division revenues, achieved excellent results, based primarily on the strength of the Alberta economy. Revenues from projects in British Columbia were better than anticipated. These results reflect a high level of lot servicing performed for third parties as well as for Genstar's land division. Revenues and profit margins will be dependent on the rate of housing starts in 1977.



The outlook for the company's construction activities is reasonably optimistic based on the continued strength of the Alberta economy, improvement in the B.C. economy, and expansion into new market areas. However, the completion of many major projects and cutbacks in government spending programs means that while overall revenues may be affected to a minor extent in 1977, profit margins will be under pressure due to stronger competition for the available work.

In Quebec, the construction division experienced the anticipated effects of the general slowdown in construction following the Olympic Games, a tightening of government spending, and a two-month strike by construction workers in the province. Fewer major public works projects and some decline in private sector spending can be expected as expansion plans are shelved until provincial government policy in many areas is clarified.

Heavy construction work in Canada during the next several years is likely to be related to major resource development projects in several provinces and the company expects to participate in these projects provided satisfactory profit margins can be maintained.

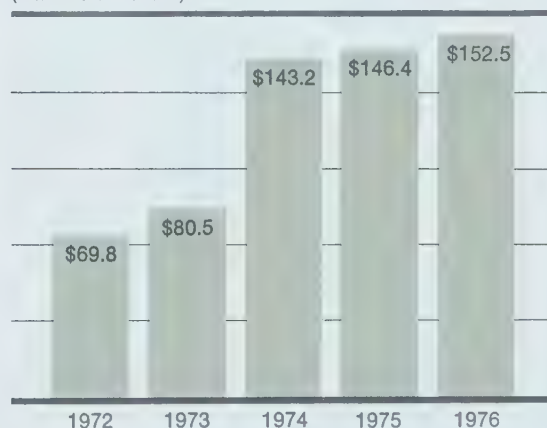


Left: Jenpeg hydro-electric development in Northern Manitoba

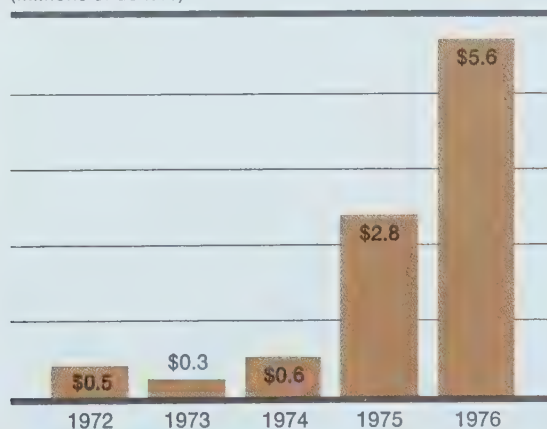
Center: Paving sidewalks and roads for housing subdivisions

Right: Earth moving work on the Syncrude project in Northern Alberta

Revenues
(millions of dollars)



Net income
(millions of dollars)



MARINE

Income from marine division activities was down in 1976 compared to 1975 reflecting soft market conditions together with heavy start-up costs in the growing international operations.

Results in Western Canada were adversely affected by the generally slow economy in British Columbia, a three-month construction trades lockout and softness in the forest products and resource industries in the province.

Ship repair work, which normally generates about one-third of shipyard revenues, showed some improvement over 1975 but new construction orders have virtually dried up as a result of world-wide overcapacity in ship tonnage.

Genstar has invested over \$30 million to date in equipment for its international marine operations. All off-shore marine activities are carried out through participation in joint ventures, most of which are in the initial stages of operation and market development. International marine operations absorbed the anticipated heavy start-up costs in the Middle East while activity in the North Sea continued to be slow. The prospects for 1977 are good as various operations mature and begin to make a positive contribution to income.

Activity in the North Sea is expected to pick up in 1977, and the inauguration in September of a roll-off barge service between Marseille, France and Yanbu, Saudi Arabia, providing door-to-door service for moving trailers and containers from any point in Western Europe to final destination in Saudi Arabia,



is expected to be a popular and profitable service to this high growth area.

Global Transport Organisation (GTO) has established shore facilities in Saudi Arabia and now provides complete stevedoring, lighterage and cargo handling service as well as some ocean-towing for the Arabian American Oil Company (ARAMCO) and others. These operations are expected to generate over \$50 million of revenues per year for GTO over the next five years.

Arctic Transportation Limited specializes in the transport of supplies and equipment to resource development projects on the North Slope of Alaska and the Canadian Arctic. In 1976, ATL acquired the

marine division of Kaps Transport Limited, which operates six tugs and 30 other vessels and barges on the Mackenzie River and the Beaufort Sea, placing ATL in an excellent position to service new oil and gas developments in the Arctic regions.

Results from the West Coast marine division for 1977 are expected to recover from the depressed levels of 1976 and income from international marine operations should increase as full operating levels are achieved.

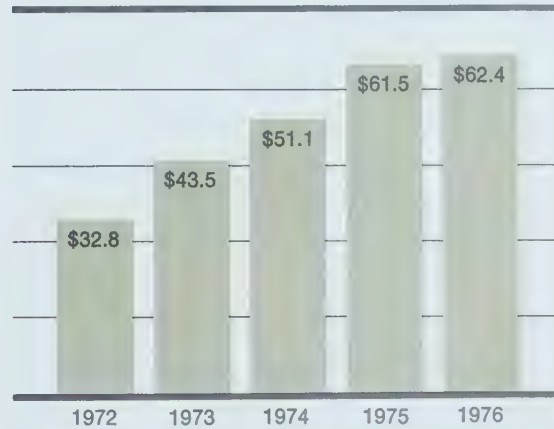


Left: Barging a jack-up drill rig from Singapore to Galveston, Texas

Center: Triple deck roll-on roll-off barge loading trailers in France for shipment to Saudi Arabia

Right: Tug power for marine transportation on Canada's West Coast

Revenues
(millions of dollars)



Income before extraordinary item
(millions of dollars)



CHEMICALS AND FERTILIZERS

This division suffered a loss in 1976 due to soft markets, lower prices for some nitrogen chemical products, continued lower than expected output from the new ammonium nitrate facilities at Maitland, Ontario, and sharply rising material and utility costs.



Fertilizer markets proved to be highly competitive, especially in Ontario, and both revenues and margins suffered. Mixed fertilizers, sold under the brand name "Nutrite", are produced in 16 plants located in Ontario, Quebec, the Maritime provinces and the States of Maine and Vermont.

Genstar Chemical Limited purchased a majority interest in Energy Sciences and Consultants, Inc., a company which produces blasting agents in which ammonium nitrate is used, and provides consulting services to clients in the Mesabi iron range of Minnesota and in other areas of the Western United States. This acquisition also provides the company with access to the most up-to-date technology and will complement Genstar Chemical's position as a major supplier to the mining industry.

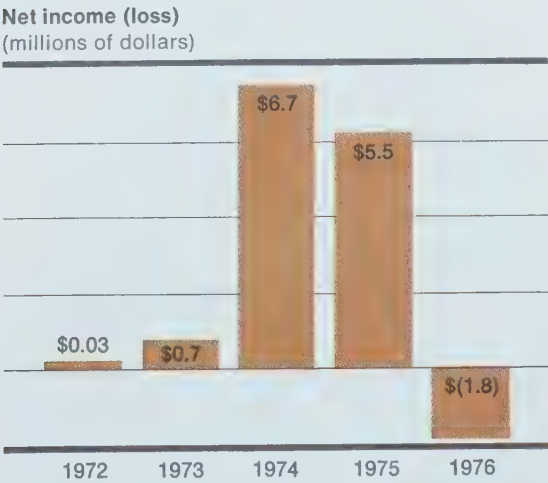
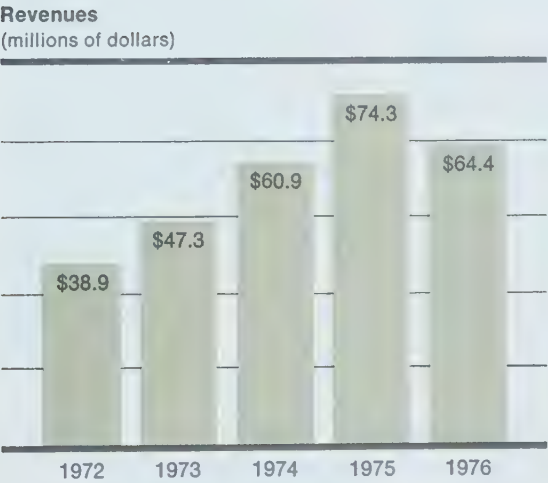


For the past several years, marketing efforts have been directed towards becoming a supplier to a broad cross-section of Canadian and U.S. industries to offset the cyclical nature of the Canadian fertilizer market, with the result that Genstar Chemical is now a major supplier to the pulp and paper, mining, resin, textile, feed, explosives and industrial chemical industries. The Maitland plant expansion provides world-scale nitric acid and ammonium nitrate production facilities to supply these markets.

Both revenues and net income are expected to improve in 1977 as profit margins and markets stabilize in response to increasing energy shortages in the United States.



Left: The Maitland, Ontario plant has the largest single site nitric acid capacity in Canada
Center: Monitoring chemical production processes
Right: Agricultural fertilizers are marketed under "Nutrite" brand name



INVESTMENTS

Included under the heading "Investments" this year are results from the Abbey Glen revenue property portfolio, the California venture capital investment portfolio and import-export operations.

Revenue Properties

The Abbey Glen revenue property operations registered a loss for the five-month period of ownership. At year-end the income property portfolio comprised some 51 buildings with over 2.3 million sq. ft. of

shopping center retail space, 1.7 million sq. ft. of commercial, office and industrial space, 3,000 apartment units totalling 4.1 million sq. ft. and some 740 hotel rooms. These properties are located in Quebec City, Montreal, Toronto, Winnipeg, Regina, Edmonton, Calgary, Medicine Hat and Vancouver.

The company announced on February 9, 1977 that it had sold most of the Abbey Glen residential buildings for a total of \$59 million.

Venture Capital

The company's venture capital operations had a very successful year in 1976 and investments totalled \$13 million at year-end. Positions are now held in 33 companies, 17 of which Genstar helped to start.

Investments were made in seven additional companies during the year and further investments were made in seven companies already included in the portfolio. Portfolio investments are chiefly in high-technology fields where the object is to help young companies get



established and grow into recognized leaders in their particular fields. These positions are taken as long-term investments and held for long-term capital appreciation.

With the continuing improvement in the U.S. economy stock markets are expected to remain healthy in 1977 and the company expects to make new portfolio investments.

Import-Export

The steel fabricating and warehousing activities based in Texas were sold early in 1976. However, Genstar is still engaged in the import for sale to distributors and end users in the United States of primary and semi-finished metals including zinc from Finland and Zaïre, ferro nickel from Greece, industrial chemicals from Belgium and silicon nitrate from Japan. Exports from the United States to Europe include antimony ore and

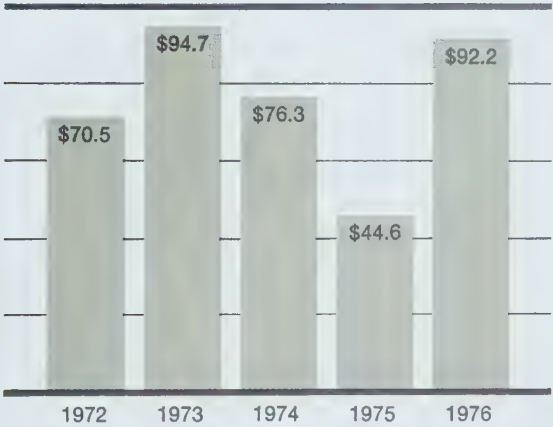
non-ferrous residues. These operations are of an agency nature characterized by relatively high revenues and low profit margins.

Revenues from import-export operations almost tripled in 1976 compared to 1975 reflecting increased sales of zinc in the U.S. as the economy recovered strength during the year. Sales of zinc and other minerals are expected to continue at high levels in 1977.

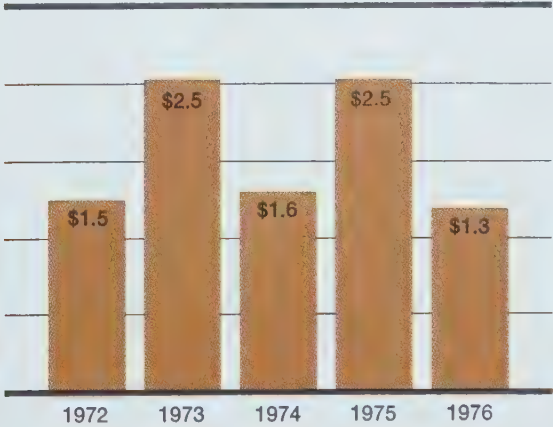
*Left: New hotel building in Calgary
Center: Shopping center in Edmonton
Right: Assembly of electronic boards at one of the companies in the venture capital portfolio*



Revenues
(millions of dollars)



Income before extraordinary item
(millions of dollars)



DIVISIONS AND SUBSIDIARIES

Building Materials



Genstar Materials Limited
Calgary, Alberta

Ready-mix concrete, concrete block and pipe, sand, gravel, classified aggregates and lightweight aggregate.

J. L. Holman
President

G. K. Cruikshank
Vice President, Finance and Administration

J. J. Denholm
Vice President



Ocean Construction Supplies Limited
Vancouver, British Columbia

N. D. MacRitchie
President

E. J. McCance
Vice President, Development and Marketing

L. J. Campbell
Vice President, Finance

R. C. Miller
J. T. Arnold
J. A. Cherry
T. A. Bethune
Vice Presidents



Consolidated Concrete Limited
Calgary, Alberta

K. G. Evans
President

B. Amos
Vice President and General Manager, Northern Alberta

R. C. Kruger
Vice President and General Manager, Southern Alberta

H. Banks
Vice President and General Manager, Edcon Block Division



Redi-Mix Limited
Regina, Saskatchewan

H. F. Ward
President and General Manager

Building Products and Concrete Supply
Winnipeg, Manitoba

E. Rosenblat
President

R. D. Rosenblat
Vice President and General Manager



Truroc Gypsum Products Ltd.
Edmonton, Alberta

Gypsum wallboard.

G. R. Thompson
President

J. B. Hawking
Vice President, Marketing

B. A. Korun
Vice President, Manufacturing

L. J. Umrysh
Secretary-Treasurer



Con-Force Products Ltd.
Calgary, Alberta

Precast, prestressed concrete.

A. W. Falk
President

G. Adam
Vice President, Marketing

T. J. Bartkiewicz
Vice President, Operations

F. T. McAleer
Vice President, Finance

H. Nash
Vice President, Construction

J. G. White
Vice President and General Manager
Con-Force Costain
Concrete Tie Co. Ltd.

Construction



Genstar Construction Limited
Winnipeg, Manitoba

K. C. Kinsley
President

L. J. Herbach
Vice President, Finance

D. R. Penner
Vice President

B.A.C.M. Construction Company Ltd.
B.A.C.M. Heavy Construction Ltd.
B.A.C.M. Mine Developers Ltd.
Winnipeg, Manitoba

D. S. Duncan
President

H. B. McLenaghan
G. C. Turner
W. R. Monkman
Vice Presidents

B-A Construction Ltd.
Mulder Bros. (1975) Ltd.
Winnipeg, Manitoba

D. G. Mulder
President

R. F. Morris
E. G. Mulder
Vice Presidents



Standard-General Construction Limited — Calgary, Alberta
Edmonton, Alberta
Vancouver, British Columbia

R. J. Boon
President

A. J. Berg
A. J. Flood
W. E. Gardiner
W. J. Smith
Z. J. Iwaskow
Vice Presidents

Housing and Land Development



Genstar Development Limited
Surrey, British Columbia

V. S. G. Lewis
President

N. F. Bothwell
Executive Vice President

J. E. Devereaux
Vice President, Finance and
Administration

E. B. Bodie
Vice President and General Manager,
Winnipeg Region

S. E. J. Richardson
Vice President and General Manager,
Calgary Region

M. H. Rogers
Vice President and General
Manager, Edmonton Region



**Genstar Development
Eastern Limited**
Toronto, Ontario

F. D. Dembinsky
President

M. McAfee
Vice President

J. Ramsay
Vice President and
General Manager,
Ontario and Quebec



Abbey Glen Property Corporation
Toronto, Ontario

J. W. V. Andrews
President

C. D. Smith
Executive Vice President

D. C. McBride
Senior Vice President

J. E. Searle
Senior Vice President

J. E. Baert
Vice President

T. R. Ritson
Vice President, Finance
and Treasurer

E. R. Wilbee
Vice President, Administration
and Corporate Secretary

R. P. Kanee
Comptroller



Engineered Homes Limited
Calgary, Alberta

C. D. Wilson
President

G. L. Magnussen
Senior Vice President and
Development Officer

J. E. Whitaker
Vice President and General
Manager, Southern Region

P. A. Turner
Vice President and General
Manager, Pacific Region

R. J. Cowan
Vice President and General
Manager, Northern Region

G. J. McNeil
Vice President and General
Manager, Central Region

G. R. McAthey
Vice President and General Manager,
Manufacturing, Engineered
Products Division

R. B. Klippenstein
Vice President, Finance



Keith Construction Company Limited
Calgary, Alberta

E. M. Gustafson
President

L. H. Frodsham
Executive Vice President

R. J. Kimoff
Executive Vice President

L. Luini
Vice President

L. Cosman
Vice President

R. Taylor
Vice President

N. Till
Vice President, Finance

B. C. Eeles
Controller

Cement



Inland Cement Industries Limited
Edmonton, Alberta

Normal portland cement, oilwell cement, high early strength cement, masonry cement, sulphate resistant cement and special potash cement.

D. R. B. McArthur
Chairman of the Board

George Ross
President

J. L. Crawley
Vice President and General Manager, Eastern Region

A. R. Watt
Vice President and General Manager, B.C. Region

R. J. Zimmel
Vice President and General Manager, Western Region

D. M. Aboussafy
Vice President and Secretary-Treasurer

K. M. Bartlett
Vice President, Planning and Development

E. Cardey
Vice President and Technical Director

A. E. Geikie
Vice President, Personnel

P. Wacko
Vice President, Marketing



Miron Company Ltd.
Montreal, Quebec

Normal portland cement, high early strength cement, oilwell cement, white portland cement, masonry cement, ready-mix concrete, "Add-O-Mix", concrete blocks, bricks and pipe, crushed stone, classified aggregates and sand, bituminous concrete (asphalt) and precast products.

Louis A.-Lapointe, Q.C.
Chairman of the Board

Albert V. Hudon
President

Bela N. Baranyai
Vice President and General Manager, Construction Division

Charly Binamé
Senior Vice President and General Manager, Cement and Aggregates Division

François R. Lacroix
Vice President and General Manager, Cement Products Division

Jacques B. Langevin
Senior Vice President and Director of Public Relations

Jacques Lemoine
Vice President, Administration

Claude J. E. Dupont
Vice President, General Counsel and Secretary

André Laplante
General Manager, Technical Services

Marine



Genstar Marine Limited
North Vancouver, British Columbia

J. C. F. Stewart
Chairman of the Board

G. M. Marshall
Vice President, Finance and Administration

J. S. Heyrman
Vice President, Marketing and Research

S. O. Stokke
Director of Operations



Genstar Overseas Limited
Hamilton, Bermuda

International Operations and Joint Ventures.

J. L. Bodie
Vice Chairman

J. L. Eyre
President

R. N. Duncan
Vice President

C. G. Hall
Vice President and Treasurer



Seaspan International Ltd.
North Vancouver, British Columbia

Marine towing, barge transportation and salvage operations in the ports of Vancouver and Victoria, the Pacific coastal waters and the high seas.

J. Rod A. Lindsay
President

A. M. Fowlis
Executive Vice President

R. E. Tolhurst
Senior Vice President

D. W. Osborne
Vice President, Operations



Vancouver Shipyards Co. Ltd.
North Vancouver, British Columbia

Ship building and ship repairing;
Syncrolift docking.

A. M. Fowles
President

Victor Gadsby
Vice President, Marketing



McAllister Towing & Salvage Ltd.
Montreal, Quebec

Berthing ships in the Port of Montreal,
marine towing, salvage and pollution
control throughout Eastern Canada.

D. G. McAllister
President

T. H. Caron
Secretary-Treasurer

Chemicals and Fertilizers



Genstar Chemical Limited
Montreal, Quebec

Industrial chemicals and gases,
fertilizers and fertilizer materials,
including ammonia, ammonium nitrate,
urea, nitrogen solutions, nitric acid,
hydrogen, carbon dioxide, nitrogen.

R. A. Parkes
President

J. C. Chantraine
Vice President, Production
and Development

J. Bellisle
General Manager, Fertilizers

T. Bjerkelund
Director of Corporate Services

J. S. Harrison
Director of Administration

M. F. Moriarty
Director of Marketing

Real Estate and Venture Capital



Genstar Pacific Corporation
Palo Alto, California

H. D. Edelen
President

D. R. Blanchard
Senior Vice President

S. W. Brown
Vice President and Treasurer

SUTTER HILL

Sutter Hill Limited
Palo Alto, California

Development of shopping centers and
residential properties, principally in
California.

J. R. McMichael
President

M. D. Couch
Vice President

Sutter Hill Ventures
Palo Alto, California

Venture capital investment activities
primarily in technology-related
companies.

W. H. Draper III
P. M. Wythes
D. L. Anderson
G. L. Baker Jr.
General Partners



Broadmoor Homes, Inc.
Tustin, California

R. B. Smith
President

R. F. Osgood
Executive Vice President

L. R. Lizotte
Senior Vice President

J. B. Sauer
Vice President,
Secretary and Controller



**First American Title Guaranty
Company — Oakland, California**

Title abstract and escrow services

G. A. Verssen
Chairman of the Board

W. B. Morrish
President

Import-Export



Indussa Corporation
New York, New York

General mill representatives and
importers specializing in non-ferrous
metals from world suppliers to the
United States and the export of
domestic United States products.

V. V. Shick
President

J. Leroy
Vice President

H. H. Bachrach
Corporate Secretary

Genstar Western Limited
Vancouver, British Columbia

I. Spector
Vice President

CORPORATE INFORMATION

Counsel

Ogilvy, Montgomery, Renault, Clarke,
Kirkpatrick, Hannon & Howard
Montreal, Canada

Shearman & Sterling
New York, U.S.A.

Auditors

Coopers & Lybrand
Montreal, Canada

Transfer Agents and Registrars

Montreal Trust Company
Transfer Agent
Saint John, Montreal, Toronto,
Winnipeg, Edmonton and
Vancouver, Canada

The Royal Trust Company
Registrar
Saint John, Montreal, Toronto,
Winnipeg, Edmonton and
Vancouver, Canada

Morgan Guaranty Trust Company
of New York
Co-Transfer Agent
New York, U.S.A.

The First National City Bank
Co-Registrar
New York, U.S.A.

Stock Exchanges

Montreal, Toronto, Alberta
and Vancouver Stock Exchanges
in Canada

New York Stock Exchange in the
United States

Antwerp and Brussels Bourses
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GENSTAR

GREENSTAR



ANNUAL
REPORT
1976

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HIGHLIGHTS



	1976	1975	1974	1973	1972
Financial					
(millions of Canadian dollars)					
Revenues	\$ 888.3	\$ 721.5	\$ 648.6	\$ 511.8	\$ 369.8
Funds from Operations	93.8	77.1	64.6	45.6	31.2
Depreciation, Depletion and Amortization	32.3	26.5	24.2	20.0	16.3
Net Income	55.7	47.2	35.1	25.0	14.4
Dividends	16.0	14.9	12.9	8.1	5.9
Per common share					
Net Income					
Basic	\$4.63	\$4.03	\$3.06	\$2.52	\$1.58
Fully Diluted	4.18	3.61	2.71	2.18	1.34
Dividends	1.25	1.20	1.05	0.80	0.65
Book Value	24.28	21.00	18.24	16.30	14.85
Market Range	19-24	14¾-19¾	12¾-20	14-19½	12¾-18
Return on net assets	7.30%	10.38%	8.98%	7.59%	5.90%
Other statistics					
(millions except employees)					
Working Capital	\$ 111.8	\$ 103.1	\$ 44.2	\$ 66.0	\$ 51.0
Development Land and Properties	213.2	31.0	—	—	—
Mortgages and Debentures Relating to Development Land and Properties	107.1	—	—	—	—
Fixed Assets	563.8	490.5	443.8	403.6	257.6
Long-Term Debt	228.8	153.6	93.2	109.1	103.6
Shareholders' Equity	315.6	263.6	226.0	198.6	136.3
Common Shares Outstanding					
Average	11.7	11.4	11.0	9.9	9.1
Actual	11.9	11.5	11.1	10.8	9.2
Number of Employees	10,695	10,125	10,181	10,040	7,270

MANAGEMENT'S DISCUSSION OF OPERATIONS

Introduction

The following discussion should be read in conjunction with the Abbey Glen and Financial Review sections of Book I on pages 6 to 9 and the Results by Industrial Category section of this Book II on pages 4 to 12.

Revenues

In 1976 revenues increased by \$167 million compared to a \$73 million increase in 1975. In 1976 the acquisition of Abbey Glen Property Corporation and disposal of Markle Steel Company resulted in a net revenue increase of \$16 million. Continued economic strength and expanding productive capacity resulted in revenue growth in the Canadian Prairie provinces of \$94 million in 1976 and \$66 million in 1975. Reductions in interest rates and an improving economy stimulated demand

in the California housing and real estate sector increasing revenues by \$49 million in 1976 and \$15 million in 1975. Renewed demand for zinc and other non-ferrous products resulted in a \$42 million increase in the United States import business after a decrease of \$35 million in 1975. Eastern Canadian operations were adversely affected by worldwide reductions in chemical prices, government spending cutbacks and construction labor disruptions which combined to reduce 1976 revenues by \$29 million compared to a 1975 increase of \$18 million under more favorable chemical and construction market conditions. Continuing labor problems and lethargic economic conditions in British Columbia prevented the use of the company's full productive capacity and resulted in nominal revenue increases in both 1976 and 1975.

Consolidated Summary of Operations

For the years ended December 31, 1972 to 1976
(millions of Canadian dollars)

	1976	1975	1974	1973	1972
Revenues	888.3	721.5	648.6	511.8	369.8
Costs and expenses					
Cost of sales and services	631.1	527.2	487.4	392.5	281.0
Selling, general and administrative	81.9	61.3	50.2	38.7	33.4
Depreciation, depletion and amortization	32.3	26.5	24.2	20.0	16.3
Interest on long-term debt	27.5	12.1	10.3	8.6	6.0
Other interest	12.7	9.8	7.5	4.0	4.1
	785.5	636.9	579.6	463.8	340.8
Income before the following	102.8	84.6	69.0	48.0	29.0
Provision for Income Taxes					
Current	36.9	29.5	28.5	23.5	14.0
Deferred	10.2	7.9	5.4	(0.5)	(0.5)
	47.1	37.4	33.9	23.0	13.5
Loss on operations of discontinued businesses, net of income taxes	—	—	—	—	0.4
	47.1	37.4	33.9	23.0	13.9
Income before extraordinary items	\$ 55.7	\$ 47.2	\$ 35.1	\$ 25.0	\$ 15.1
Income per common share before extraordinary items					
Canadian Method					
Basic	\$ 4.63	\$ 4.03	\$ 3.06	\$ 2.52	\$ 1.66
Fully diluted	4.18	3.61	2.71	2.18	1.40
United States Method					
Primary	4.58	4.01	3.05	2.51	1.65
Fully diluted	4.23	3.69	2.77	2.24	1.43

Cost of Sales and Services

Cost of sales and services was 71 per cent of revenues in 1976 compared to 73 per cent in 1975 and 75 per cent in 1974. This improvement reflects the continuing increase in the proportion of total revenues generated by higher-margin products such as land, housing and cement.

Selling, General and Administrative Expenses

These expenses increased by \$21 million (34 per cent) in 1976 compared to \$11 million (22 per cent) in 1975. Abbey Glen expenses accounted for \$7 million of the 1976 increase and unrealized foreign exchange losses accounted for another \$2 million. Continuing increases in levels of business activity necessitated additional selling and administrative personnel and related expenses in both 1976 and 1975. In addition, inflationary pressures continued to reflect in all expenses.

Depreciation, Depletion and Amortization

Abbey Glen Property Corporation accounts for \$3 million of the \$6 million 1976 increase in depreciation, depletion and amortization. Capital expansion in the marine and building material operations resulted in 1976 expense increases of \$1 million each while expansion in marine and cement operations accounted for the majority of the \$2 million 1975 increase.

Interest Expense

Total interest expense increased by \$18 million in 1976 and \$4 million in 1975. The acquisition of Abbey Glen Property Corporation increased 1976 expense by \$14 million. The remaining 1976 increase and total 1975 increase relates to debt issues used to finance continued capital expansion primarily in the cement and marine operations.

Preferred Stock

All of the outstanding preferred shares (Series A, B, C, D) were issued pursuant to exchange offers for shares of subsidiaries. The Series B preferred shares are listed on the Montreal Stock Exchange and on the Brussels Bourse and the Series D were listed on February 25, 1977 on the Toronto, Montreal, Alberta and Vancouver Stock Exchanges. The Series A and C preferred shares are not listed.

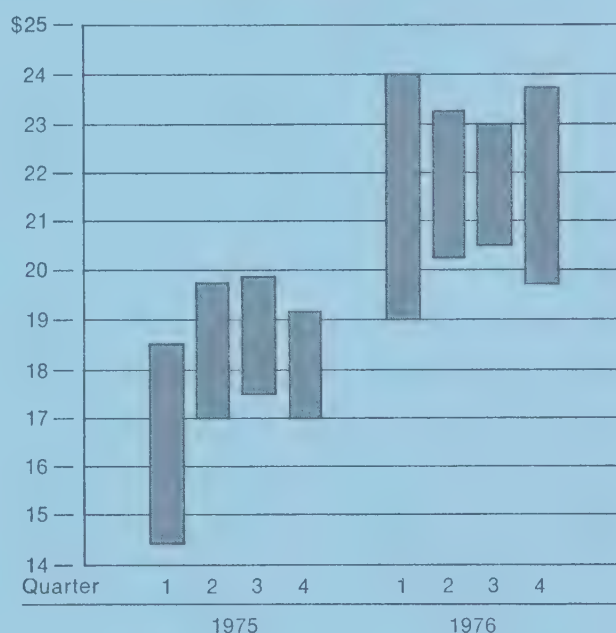
The Series B preferred shares are thinly traded and in 1976 the market price ranged from \$21¼ to \$21⅞ on the Montreal Stock Exchange.

Common Stock

The common shares are listed on the New York, Toronto, Montreal, Alberta and Vancouver Stock Exchanges and the Brussels and Antwerp Bourses. There were 11,884,726 common shares outstanding at December 31, 1976 of which 8,748,808 were registered in the name of the holder and the balance were in bearer form.

Market Price Range

Common Stock
Toronto Stock Exchange



Trading Volume

Common Stock

	1976	1975
1st Quarter	1,047,742	375,400
2nd Quarter	673,497	736,229
3rd Quarter	542,960	394,826
4th Quarter	473,309	390,607
	2,737,508	1,797,062

RESULTS BY INDUSTRIAL CATEGORY

For the five years ended December 31, 1976



The next seven pages contain details of net income by industrial category, a brief description of the businesses included in each category and a balance sheet in graphic form at December 31, 1976 for each category.

The following definitions apply to the accounting terms used in each industrial category:

Net assets

Net assets comprise total assets at the end of each year less non-interest bearing liabilities and are financed by interest-bearing debt, deferred income taxes and shareholders' equity.

Return on net assets

Return on net assets is the percentage obtained by dividing net income before interest expense less applicable income taxes by net assets.

Gross working capital

Gross working capital comprises current assets less non-interest bearing current liabilities.

BUILDING MATERIALS

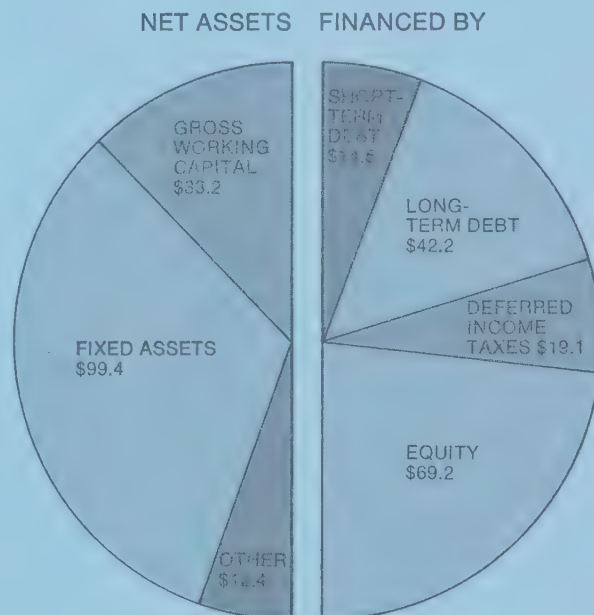
	1976	1975	1974	1973	1972
	(millions of dollars)				
Revenues	222.4	192.3	178.0	125.1	101.6
Costs and expenses					
Cost of sales	166.5	143.7	136.8	93.8	75.4
Selling, general and administrative	18.6	16.4	14.3	10.7	9.1
Depreciation, depletion and amortization	7.9	6.7	6.4	5.4	5.1
Interest	6.1	3.6	4.5	3.9	2.3
	199.1	170.4	162.0	113.8	91.9
Income before the following	23.3	21.9	16.0	11.3	9.7
Provision for income taxes	10.1	9.5	7.8	5.7	5.1
Net income	\$ 13.2	\$ 12.4	\$ 8.2	\$ 5.6	\$ 4.6
Net assets	\$145.0	\$134.1	\$121.4	\$ 81.3	\$ 74.8
Return on net assets	11.49%	10.77%	8.61%	9.20%	7.54%

The operations of this category comprise the production of a wide variety of building materials and supplies including pre-cast and pre-stressed architectural and structural concrete products, concrete blocks and railway ties, ready-mix concrete, masonry supplies, gypsum wallboard, and sand, gravel and classified aggregates.

Revenues increased \$30 million or 16 per cent in 1976 and at a compound annual rate of 30 per cent in the five-year period 1972-1976.

Net income increased marginally in 1976 and at a compound rate of 39 per cent from 1972-1976.

Condensed Balance Sheet December 31, 1976
(millions of dollars)



The assets above represent the components of the net asset base as at December 31, 1976. The financing of the net assets, as shown above, is an allocation of the total company resource pool based on financial ratios particular to the building materials industry.



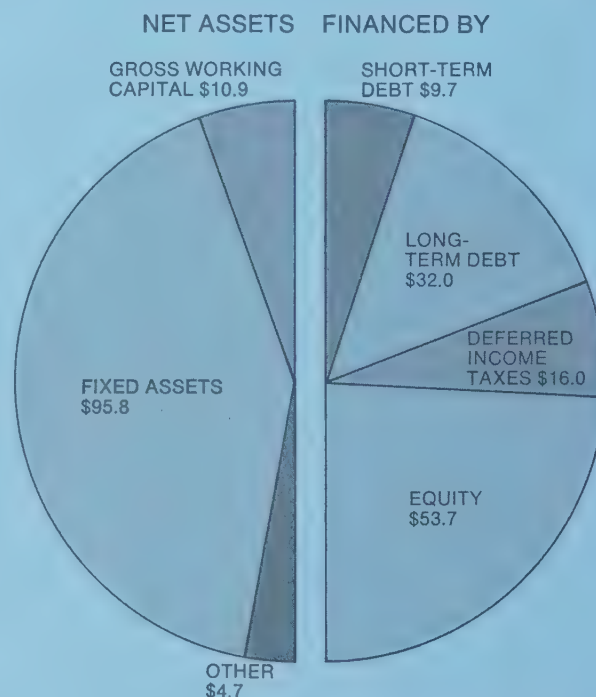
	1976	1975	1974	1973	1972
	(millions of dollars)				
Revenues	127.9	111.4	88.7	49.9	42.8
Costs and expenses					
Cost of sales	86.0	77.6	58.4	29.4	25.6
Selling, general and administrative	10.1	8.8	7.9	3.6	3.4
Depreciation, depletion and amortization	6.0	5.8	4.9	3.1	3.1
Interest	6.0	3.1	2.8	1.2	1.5
	108.1	95.3	74.0	37.3	33.6
Income before the following	19.8	16.1	14.7	12.6	9.2
Provision for income taxes	8.6	6.9	7.3	6.0	4.5
Net income	\$ 11.2	\$ 9.2	\$ 7.4	\$ 6.6	\$ 4.7
Net assets	\$111.4	\$ 81.1	\$ 77.7	\$ 47.5	\$ 49.5
Return on net assets	13.13%	13.55%	11.42%	15.13%	11.11%

The operations of this category comprise the manufacture of normal portland and specialized cements at four cement plants in Western Canada and one plant in Montreal.

Revenues increased 15 per cent in 1976 and for the five years ended December 31, 1976, revenues increased at a compound annual rate of 38 per cent.

Net income increased by 22 per cent in 1976 and five year income growth has been at the rate of 31 per cent per annum.

Condensed Balance Sheet December 31, 1976
(millions of dollars)



The assets above represent the components of the net asset base as at December 31, 1976. Working capital requirements in 1976 were abnormally low because of low inventory levels throughout the year resulting from strong demand.

The financing of the net assets, as shown above, is an allocation of the total company resource pool based on financial ratios particular to the cement industry.

HOUSING AND LAND DEVELOPMENT

	1976	1975	1974	1973	1972
	(millions of dollars)				
Revenues	253.7	160.3	119.1	119.7	84.5
Costs and expenses					
Cost of sales	167.5	110.5	85.7	92.6	67.9
Selling, general and administrative	27.3	17.4	12.6	10.4	9.0
Depreciation	1.2	0.8	0.7	0.7	0.6
Interest	12.4	7.6	4.1	2.7	2.5
	208.4	136.3	103.1	106.4	80.0
Income before the following	45.3	24.0	16.0	13.3	4.5
Provision for income taxes	22.0	12.3	8.4	6.7	2.4
Net income	\$ 23.3	\$ 11.7	\$ 7.6	\$ 6.6	\$ 2.1
Net assets	\$398.9	\$166.2	\$120.4	\$ 83.6	\$ 87.1
Return on net assets	7.45%	9.31%	7.88%	9.57%	3.83%

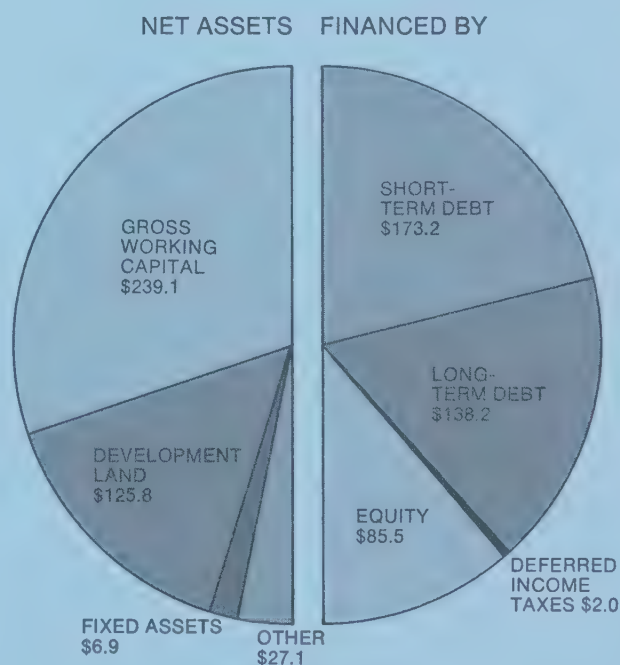
The operations of this category comprise the development of residential, commercial and industrial land; construction of single-family, duplex and townhouse units; manufacture of pre-assembled sections and component packages for the construction of residential units, development and sale of shopping centers; and participations in the development of residential communities and recreational land.

Net assets increased substantially in 1976 as a result of the consolidation of the housing and land development operations of Abbey Glen Property Corporation. Return on net assets in 1976 would have been 10.14 per cent if the net asset base was adjusted to include the net assets of Abbey Glen on a weighted average basis from the date of acquisition.

Revenues increased 58 per cent in 1976 and at a compound annual rate of 32 per cent in the period 1972-1976.

Net income in 1976 was double the 1975 level and increased at a compound annual rate of 47 per cent over the past five years.

Condensed Balance Sheet December 31, 1976
(millions of dollars)



The assets above represent the components of the net asset base as at December 31, 1976. Gross working capital is large because of the land and work in process inventories which are financed primarily by mortgage advances and short-term borrowings. The financing of the net assets, as shown above, is an allocation of the total company resource pool based on financial ratios particular to the real estate industry.

CONSTRUCTION



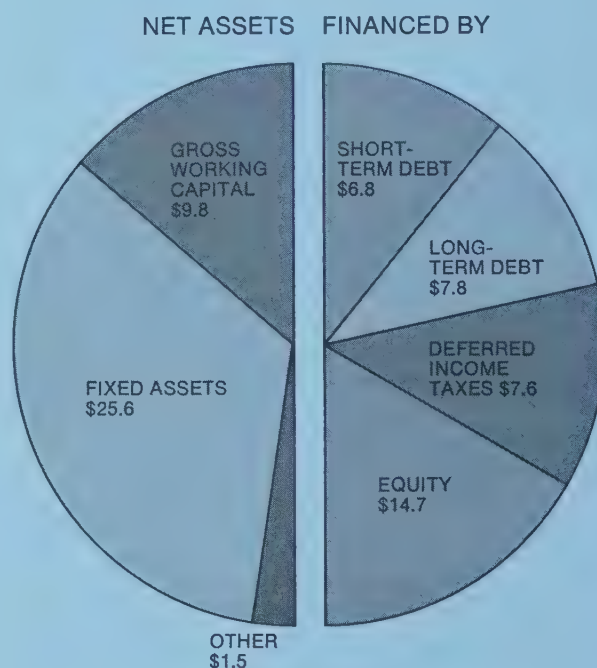
	1976	1975	1974	1973	1972
	(millions of dollars)				
Revenues	152.5	146.4	143.2	80.5	69.8
Costs and expenses					
Cost of sales	124.6	127.0	128.4	68.2	57.5
Selling, general and administrative	8.6	6.0	5.3	4.4	4.3
Depreciation and depletion	6.5	6.6	6.5	5.8	5.0
Interest	1.9	1.5	1.7	1.5	1.9
	141.6	141.1	141.9	79.9	68.7
Income before the following	10.9	5.3	1.3	0.6	1.1
Provision for income taxes	5.3	2.6	0.7	0.3	0.6
Net income	\$ 5.6	\$ 2.7	\$ 0.6	\$ 0.3	\$ 0.5
Net assets	\$ 36.9	\$ 32.1	\$ 43.8	\$ 38.1	\$ 39.1
Return on net assets	17.74%	11.00%	3.16%	2.81%	3.58%

The operations of this category comprise the construction for the private sector as well as for federal, provincial and local authorities of utilities including hydroelectric power installations, airports, bridges, dams, highways, reservoirs, pumping stations; concrete and asphalt pavements, and sewer and water installations.

Revenues in 1976 were 4 per cent higher than 1975 and have increased at a compound annual rate of 22 per cent in the period 1972-1976.

Net income in 1976 was double the level achieved in 1975 and has increased at a compound annual rate of 70 per cent in the past five years.

Condensed Balance Sheet December 31, 1976
(millions of dollars)



The assets above represent the components of the net asset base as at December 31, 1976. The financing of the net assets, as shown above, is an allocation of the total company resource pool based on financial ratios particular to the construction industry.

MARINE

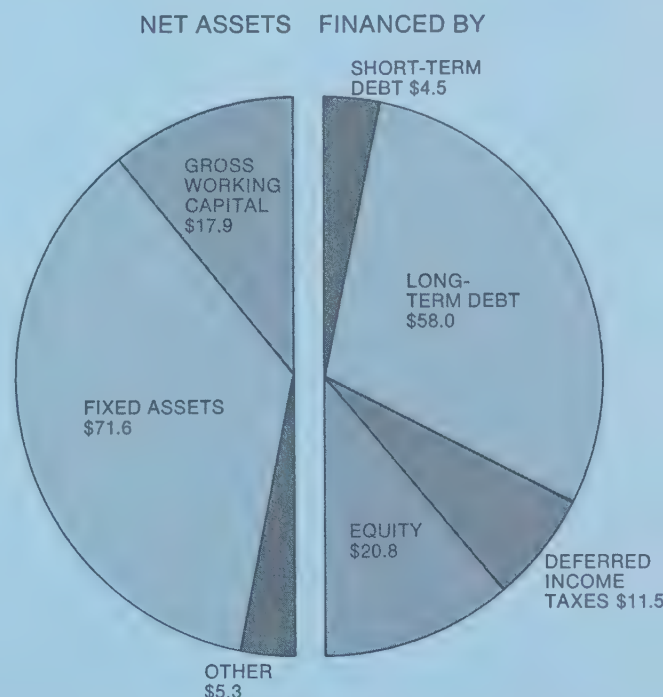
	1976	1975	1974	1973	1972
	(millions of dollars)				
Revenues	62.4	61.5	51.1	43.5	32.8
Costs and expenses					
Cost of sales	42.4	45.0	36.1	30.0	21.8
Selling, general and administrative	6.4	5.0	3.3	2.9	2.7
Depreciation	5.1	4.2	3.5	3.2	2.5
Interest	3.5	3.3	2.2	1.8	1.3
	57.4	57.5	45.1	37.9	28.3
Income before the following	5.0	4.0	6.0	5.6	4.5
Provision for income taxes	2.2	0.8	3.0	2.5	1.0
Minority interest	—	—	—	0.3	1.5
Loss on operations of discontinued business, net of income taxes	—	—	—	—	0.3
	2.2	0.8	3.0	2.8	2.8
Income before extraordinary item	\$ 2.8	\$ 3.2	\$ 3.0	\$ 2.8	\$ 1.7
Net assets	\$ 94.8	\$ 76.7	\$ 53.1	\$ 42.1	\$ 23.0
Return on net assets	5.02%	7.55%	7.76%	8.24%	8.68%

These operations comprise marine equipment to provide shipdocking, transportation, lighterage, salvage and pollution control services, shipbuilding and repair facilities.

Revenues increased only marginally in 1976 and at a compound annual rate of 18 per cent in the five-year period ended December 31, 1976. Revenues include Genstar's share of profits from Canadian and international marine joint ventures which are accounted for on the equity method.

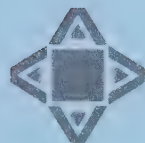
Net income in 1976 was 12 per cent below 1975 and in the five-year period 1972-1976, increased at a compound annual rate of 21 per cent.

Condensed Balance Sheet December 31, 1976
(millions of dollars)



The assets above represent the components of the net asset base as at December 31, 1976. The financing of the net assets, as shown above, is an allocation of the total company resource pool based on financial ratios particular to the marine transportation industry.

CHEMICALS AND FERTILIZERS

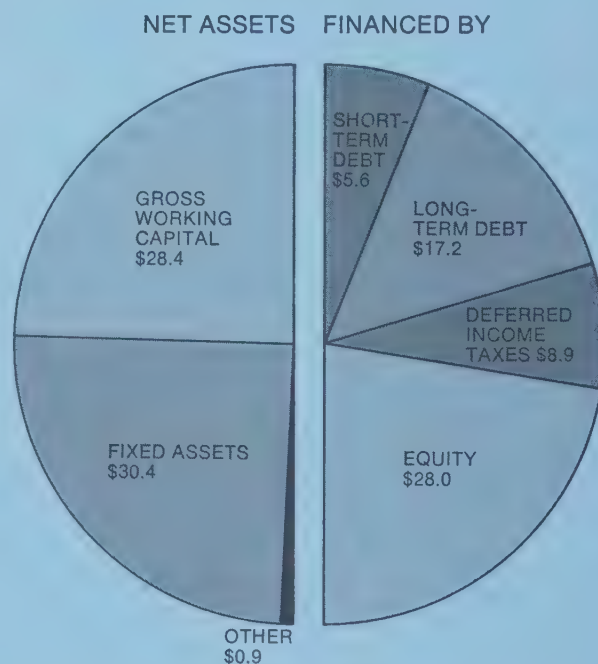


	1976	1975	1974	1973	1972
	(millions of dollars)				
Revenues	64.4	74.3	60.9	47.3	38.9
Costs and expenses					
Cost of sales	54.9	55.1	40.5	39.1	32.0
Selling, general and administrative	6.0	5.4	4.5	4.1	4.0
Depreciation	2.9	2.2	2.1	2.2	2.1
Interest	3.8	1.9	1.1	0.6	0.7
	67.6	64.6	48.2	46.0	38.8
Income before the following	(3.2)	9.7	12.7	1.3	0.1
Provision for income taxes	(1.4)	4.2	6.0	0.6	0.1
Net income (loss)	\$ (1.8)	\$ 5.5	\$ 6.7	\$ 0.7	\$ —
Net assets	\$ 59.7	\$ 55.2	\$ 42.2	\$ 42.9	\$ 44.3
Return on net assets	0.57%	11.95%	17.26%	2.29%	0.87%

These operations comprise the manufacture of nitrogen-based chemicals at a plant located in Maitland, Ontario and the manufacture of fertilizer materials and mixed fertilizers.

Revenues in 1976 decreased 14 per cent and in the five year period 1972-1976 increased at a compound annual rate of 12 per cent. A loss was recorded in 1976 compared to a profit in 1975.

Condensed Balance Sheet December 31, 1976
(millions of dollars)



The assets above represent the components of the net asset base as at December 31, 1976. Working capital requirements of this division form a large proportion of net assets because of the need to build up large inventories for the short fertilizer selling season. The financing of the net assets, as shown above, is an allocation of the total company resource pool based on financial ratios particular to the chemical and fertilizer industry.

INVESTMENTS

	1976	1975	1974	1973	1972
	(millions of dollars)				
Revenues	92.2	44.6	76.3	94.7	70.5
Costs and expenses					
Cost of sales	76.4	37.6	70.2	86.4	63.8
Selling, general and administrative	4.9	2.3	2.3	3.4	3.2
Depreciation	2.7	0.2	0.1	0.2	0.2
Interest	6.5	0.9	1.4	1.1	1.1
	90.5	41.0	74.0	91.1	68.3
Income before the following	1.7	3.6	2.3	3.6	2.2
Provision for income taxes	0.3	1.1	0.7	1.2	0.6
Loss on operations of discontinued business, net of income taxes	—	—	—	—	0.1
	0.3	1.1	0.7	1.2	0.7
Income before extraordinary item	\$ 1.4	\$ 2.5	\$ 1.6	\$ 2.4	\$ 1.5
Net assets	\$213.6	\$ 26.6	\$ 33.2	\$ 35.6	\$ 34.6
Return on net assets	3.05%	11.09%	7.79%	9.10%	6.37%

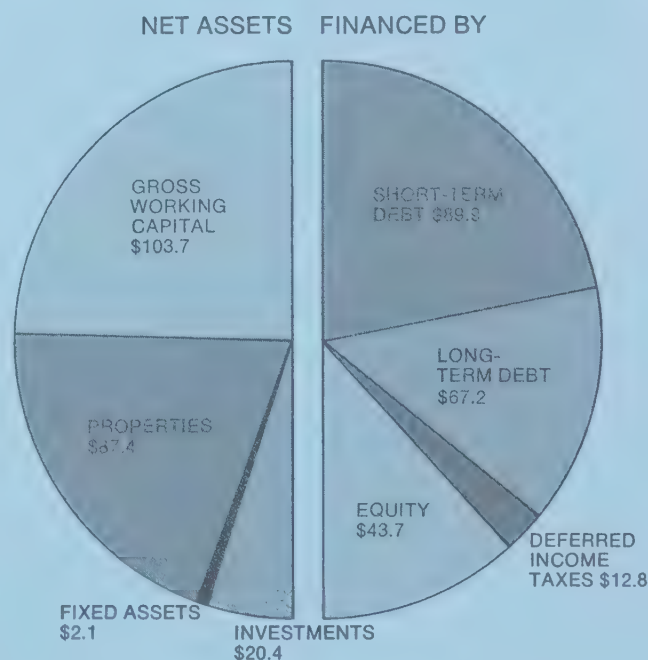
These operations comprise the development and operation of residential and commercial revenue properties, the investment of equity venture capital primarily in new enterprises in high technology fields and the import of primary and semi-finished metals for sale to distributors and end-users and the export of industrial products.

Net assets increased substantially in 1976 as a result of the consolidation of the revenue-producing properties operations of Abbey Glen Property Corporation. Return on net assets in 1976 would have been 6.41 per cent if the net asset base was adjusted to include the net assets of Abbey Glen on a weighted average basis from the date of acquisition.

Revenues more than doubled in 1976. Revenues from revenue-producing properties totalled \$16 million in the five months of ownership. Net income decreased by 48 per cent in 1976.

The assets in this category include revenue-producing properties which were sold in early 1977 and other properties which are expected to be sold in the balance of the year. As a result, the net asset base will decrease significantly in 1977 and return on net assets will fluctuate accordingly.

Condensed Balance Sheet December 31, 1976
(millions of dollars)



The assets above represent the components of the net asset base as at December 31, 1976. The financing of the net assets, as shown above, is an allocation of the total company resource pool based on financial ratios particular to the main component of this category — the real estate industry.

NET ASSETS BY INDUSTRIAL CATEGORY



The previous seven pages of this report have shown operating results by industrial category for the period 1972-1976 and a condensed balance sheet as at December 31, 1976. The net assets employed by each division can be specifically identified but there is no formal allocation of their financing within the company. Rather, there is a pool of resources

which is used by all divisions as required. To illustrate how this pool of financial resources might be allocated to the various industrial categories, the following table has been prepared based upon financial ratios generally accepted as appropriate for each industry in which Genstar operates.

INDUSTRIAL CATEGORY	NET ASSETS	FINANCED BY				RATIOS	
		Short-Term Debt	Long-Term Debt	Deferred Income Taxes	Equity	Total Debt to Equity	Long-Term Debt to Equity
		(millions of dollars)				(per cent)	
Building materials ..	145.0	14.5	42.2	19.1	69.2	45:55	38:62
Cement	111.4	9.7	32.0	16.0	53.7	44:56	37:63
Housing and land development	398.9	173.2*	138.2	2.0	85.5	78:22	62:38
Construction	36.9	6.8	7.8	7.6	14.7	50:50	35:65
Marine	94.8	4.5	58.0	11.5	20.8	75:25	74:26
Chemicals and fertilizers	59.7	5.6	17.2	8.9	28.0	45:55	38:62
Investments	213.6	89.9**	67.2	12.8	43.7	78:22	61:39
	\$1,060.3	\$304.2	\$362.6	\$77.9	\$315.6	68:32	53:47

*includes \$85.9 million of advances relating to housing and land inventories.

**includes \$77.9 million of mortgages relating to revenue properties.

The acquisition of Abbey Glen with its own total debt to equity financing of 78:22 has significantly altered the ratios of Genstar overall. At December 31, 1976 the total debt to equity ratio was 68:32 compared to 49:51 last year. Excluding Abbey Glen, the ratio would have been 50:50, the same as last year.

The long-term debt to equity ratio at December 31, 1976 was 53:47 compared to 39:61 last year. If deferred taxes were included in the equity base, the company's total debt to equity ratio would be 63:37 and the long-term debt to equity ratio would be 48:52.



CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 1976 and 1975



SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For the years ended December 31, 1976 and 1975



Consolidation

The accounts of all subsidiaries are consolidated either from the date of acquisition on the basis of purchase accounting or retroactively on the basis of pooling of interests accounting.

Foreign Exchange

Accounts in foreign currencies are expressed in Canadian dollars in accordance with Statement No. 8 of the Financial Accounting Standards Board (United States). In general, Statement No. 8 requires that monetary assets and liabilities, including long-term debt, be translated at the current rate; non-monetary assets and liabilities, including inventories, be translated at historical rates; and resulting exchange gains or losses be included in income.

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost of manufactured goods is determined principally on the first-in first-out basis and includes all overhead elements except depreciation. Cost of land and housing inventories is determined on a specific item basis and includes interest and property taxes on land prior to development and services such as roads, sewage and water systems on land under development.

Land inventories are those parcels which can reasonably be expected to be sold within the five-year operating cycle of the land development business.

Revenue Properties

Revenue properties are stated at the lower of depreciated cost or net realizable value and are properties intended to be sold within one year.

Development Land and Properties

Development land is stated at cost, including interest and property taxes; and comprises land which is not expected to be sold within the five years subsequent to the balance sheet date.

Properties are stated at depreciated cost and comprise revenue properties that are intended to be held for more than one year. Depreciation is recorded on the straight-line method based on estimated lives to a maximum of 40 years.

Fixed Assets

Properties, plants and equipment are carried at cost. Expenditures for additions, improvements and renewals are capitalized and expenditures for maintenance and repairs

are charged to income. When assets are sold or retired, their cost and accumulated depreciation or depletion are removed from the accounts and any gain or loss resulting from their disposal is included in income.

Depreciation of fixed plant and equipment is provided by annual charges to income on the straight-line method based on estimated useful lives ranging from 20 to 40 years for plants and from 5 to 25 years for equipment. Mobile equipment depreciation is based on time utilization after allowing for estimated salvage value. Depletion of quarries and gravel deposits is calculated on the unit of extraction method.

Investments and Other Assets

Portfolio securities are valued at the lower of aggregate cost or net realizable value. Investments in 50 per cent owned companies are carried on the equity method.

Intangible assets arising from acquisitions include the excess of purchase price over the net book value of identifiable assets at the date of acquisition for business combinations prior to November 1, 1970 and the excess of purchase price over the fair value of identifiable net assets at the date of acquisition for business combinations subsequent to that date.

Amortization of amounts relating to acquisitions subsequent to November 1, 1970 is charged to income on the straight-line basis over forty years. Unamortized amounts are charged to income in the event of diminution in value.

Revenue Recognition

Revenues from the sale of manufactured products and housing units are recognized upon passage of title to the customer which generally coincides with their delivery and acceptance. Revenues from the sale of land and revenue properties are recognized in the period in which the transactions occur provided the earnings process is complete and collectibility of the proceeds is reasonably assured. Revenues from the operations of revenue properties are recognized on the basis of the terms of the related leases.

Revenues from construction and shipbuilding contracts are recognized on the percentage of completion method and any losses are provided for as they become known. Claims for additional contract compensation are not recognized until resolved. Revenues from marine joint venture participations are accounted for on the equity method.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 1976 and 1975
(thousands of Canadian dollars)

	NOTE REFERENCE	1976	1975
Revenues		888,349	721,547
Costs and Expenses			
Cost of sales and services		631,087	527,236
Selling, general and administrative		81,922	61,349
Depreciation, depletion and amortization		32,328	26,522
Interest on long-term debt		27,549	12,109
Other interest		12,662	9,775
		785,548	636,991
Income Before Income Taxes		102,801	84,556
Provision for income taxes	12		
Current		36,900	29,500
Deferred		10,200	7,900
		47,100	37,400
Net Income for the Year		\$ 55,701	\$ 47,156
Net Income per Common Share	13		
Canadian Method			
Basic		\$4.63	\$4.03
Fully diluted		4.18	3.61
United States Method			
Primary		4.58	4.01
Fully diluted		4.23	3.69

CONSOLIDATED BALANCE SHEETS

As at December 31, 1976 and 1975
(thousands of Canadian dollars)



	NOTE REFERENCE	1976	1975
Assets			
Current Assets			
Cash and term deposits		13,510	8,115
Accounts receivable		183,741	138,323
Inventories	2	311,653	186,669
Revenue properties	3	100,507	—
Prepaid expenses		5,944	5,022
		615,355	338,129
Development Land and Properties			
	4	213,245	31,048
Fixed Assets			
	5		
Properties, plants and equipment		563,819	490,530
Accumulated depreciation and depletion		231,902	213,711
		331,917	276,819
Investments and Other Assets			
	6	72,326	58,612
		\$1,232,843	\$ 704,608

On behalf of the Board

Director

Angus A. MacNaughton

Director

[Signature]

	NOTE REFERENCE	1976	1975
Liabilities			
Current Liabilities			
Short-term borrowings	7	140,414	44,316
Accounts payable		137,151	110,687
Income taxes	12	35,332	22,074
Advances relating to housing and land inventories	8	85,910	44,805
Mortgages relating to revenue properties	3	77,897	—
Current portion of debt	9	26,802	13,190
		503,506	235,072
Mortgages and Debentures Relating to Development			
Land and Properties	9	107,117	—
Long-Term Debt			
	9	228,750	153,582
Deferred Income Taxes			
	12	77,863	52,355
		917,236	441,009
Shareholders' Equity			
Capital Stock			
	10	167,527	156,093
Contributed Surplus			
	11	7,778	6,967
Retained Earnings			
		140,302	100,539
		315,607	263,599
		\$1,232,843	\$ 704,608

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1976 and 1975
(thousands of Canadian dollars)

	NOTE REFERENCE	1976	1975
Source of Funds			
Net income for the year		55,701	47,156
Items not affecting funds			
Depreciation, depletion and amortization		32,328	26,522
Deferred income taxes	12	10,200	7,900
Other		(4,398)	(4,475)
Funds from operations		93,831	77,103
Sale of			
Investments and other assets		5,470	3,751
Fixed assets		11,834	11,900
Development land and properties		5,853	—
Issue of			
Mortgages, debentures and long-term debt		89,498	82,788
Capital stock	10	12,245	4,677
Other		411	894
		219,142	181,113
Application of Funds			
Acquisition of subsidiary			
Working capital deficiency	1	34,820	—
Development land and properties classified as current assets		(100,507)	—
Less related mortgages and deferred income taxes		89,826	—
		24,139	—
Purchase of			
Investments and other assets		15,554	9,411
Fixed assets		89,741	67,607
Development land and properties		22,753	6,840
Payment or reduction of			
Mortgages, debentures and long-term debt		42,134	22,415
Dividends		16,029	14,915
Other		—	1,026
		210,350	122,214
Working Capital			
Increase for the year		8,792	58,899
At beginning of year		103,057	44,158
At end of year		\$ 111,849	\$ 103,057

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Continued)

	1976	1975
Changes in Elements of Working Capital		
Current Assets Increase (Decrease)		
Cash and term deposits	5,395	(3,061)
Accounts receivable	45,418	14,604
Inventories	124,984	38,856
Revenue properties	100,507	—
Prepaid expenses	922	545
	277,226	50,944
Current Liabilities Increase (Decrease)		
Short-term borrowings	96,098	(39,817)
Accounts payable	26,464	19,076
Income taxes	13,258	(1,328)
Advances relating to housing and land inventories	41,105	16,989
Mortgages relating to revenue properties	77,897	—
Current portion of debt	13,612	(2,875)
	268,434	(7,955)
Increase in Working Capital for the Year	\$ 8,792	\$ 58,899

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended December 31, 1976 and 1975
(thousands of Canadian dollars)

	NOTE REFERENCE	1976	1975
Balance — Beginning of year		100,539	67,649
Net income for the year		55,701	47,156
Reduction of United States income taxes	15	91	649
		156,331	115,454
Dividends — preferred shares		1,345	1,314
— common shares		14,684	13,601
		16,029	14,915
Balance — End of year		\$ 140,302	\$ 100,539

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 1976 and 1975

1. Business Combination

The accounts of Abbey Glen Property Corporation (Abbey Glen), a company engaged in the land development and revenue property businesses in Canada and the United States, have been consolidated on the basis of purchase accounting assuming 100 per cent control from the date of acquisition, July 28, 1976. 62.4 per cent of Abbey Glen was acquired for a cash payment of \$49 million and the balance pursuant to an arrangement

whereby the minority shareholders could accept \$6.75 cash per reclassified Abbey Glen common share and Canadian resident minority shareholders had the alternative right to exchange their reclassified shares on the basis of ten Abbey Glen shares for three Genstar Series D preferred shares. Abbey Glen intends to redeem the remaining minority shares for cash of \$6.75 each on March 1, 1977.

The acquisition equation is as follows:

	Abbey Glen (thousands of dollars)
Net assets acquired	
Net tangible assets at the carrying value of the acquired company	74,247
Intangible assets at the carrying value of the acquired company	737
Allocation of purchase price to land and revenue properties	5,086
Allocation of purchase price to intangible assets	(737)
	<u>\$ 79,333</u>
Consideration	
Cash	69,931
Preferred shares and related contributed surplus	7,296
Minority interest to be acquired	2,106
	<u>\$ 79,333</u>

Assuming the purchase had taken place on January 1, 1975, the proforma consolidated results would have been as follows:

	1976	1975
	(thousands of dollars)	
Revenues	\$942,622	\$841,567
Net income	56,002	49,947
Income per common share		
Canadian method — basic	\$ 4.62	\$ 4.23
— fully diluted	4.11	3.69
United States method — primary	4.55	4.17
— fully diluted	4.14	3.80

The purchase combination resulted in the following changes in financial position:
(thousands of dollars)

Source of Funds		Application of Funds	
Assumption of —		Purchase of —	
Long-term debt	212,818	Development land and	
Deferred income taxes	27,237	properties	268,183
Other	339	Fixed assets	3,363
	<u>240,394</u>	Investments	3,668
			<u>275,214</u>
		Decrease in working capital	<u>\$ 34,820</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2. Inventories

	1976	1975
	(thousands of dollars)	
Finished goods	26,426	32,013
Work in process	85,231	39,375
Raw materials and supplies	33,625	33,426
Land	153,683	71,107
Maintenance and repair parts	12,688	10,748
	\$311,653	\$186,669

Land inventories include raw land of \$94,156,000 at December 31, 1976 and

\$20,393,000 at December 31, 1975.

3. Revenue Properties

Revenue properties are stated net of accumulated depreciation in the amount of \$4,618,000. The related mortgages payable

bear interest at rates ranging from 7 per cent to 10¼ per cent and are repayable over terms up to 35 years.

4. Development Land and Properties

	1976	1975
	(thousands of dollars)	
Properties — cost	92,723	3,297
— accumulated depreciation	4,523	93
	88,200	3,204
Development land	99,080	23,583
Mortgages and loans receivable	25,965	4,261
	\$213,245	\$ 31,048

5. Fixed Assets

	1976		1975	
	Cost	Accumulated Depreciation and Depletion	Cost	Accumulated Depreciation and Depletion
	(thousands of dollars)			
Plant sites	17,122	—	16,409	—
Quarries and gravel deposits	26,474	3,916	22,653	3,902
Buildings	87,836	32,440	78,764	30,218
Machinery and equipment	432,387	195,546	372,704	179,591
	\$563,819	\$231,902	\$490,530	\$213,711

6. Investments and Other Assets

	1976	1975
	(thousands of dollars)	
Investments		
Portfolio securities	17,988	14,425
50% owned companies	11,921	4,302
Advances to stock purchase plan	5,285	2,935
	35,194	21,662
Intangible assets arising from acquisitions	34,576	34,962
Debt discount	2,556	1,988
	\$ 72,326	\$ 58,612

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)



Portfolio securities included marketable shares of \$9,400,000 at December 31, 1976 and \$7,795,000 at December 31, 1975 with market values of \$12,260,000 and \$10,339,000 respectively.

Intangible assets arising from acquisitions subsequent to November 1, 1970 amount to \$2,672,000. Accumulated amortization thereon amounted to \$382,000 at December 31, 1976 and \$315,000 at December 31, 1975.

7. Short-Term Borrowings

	1976	1975
	(thousands of dollars)	
Bank advances	102,728	33,030
Short-term promissory notes	37,686	11,286
	\$140,414	\$ 44,316

Bank lines of credit at December 31, 1976 amounted to \$240,000,000, of which \$170,000,000 were unsecured. Unused bank lines of credit in the amount of \$45,000,000 are maintained for short-term promissory notes with an authorized limit of \$50,000,000. Commitment fees on these lines are not material.

Average short-term borrowings outstanding during 1976 amounted to \$92,400,000 and the maximum outstanding at any month-end was \$140,414,000. Short-term borrowings bear interest at rates which approximate prime lending rates.

8. Advances Relating to Housing and Land Inventories

Included in advances relating to housing and land inventories is \$60,339,000 at December 31, 1976 representing the outstanding balances of the purchase price of development lands which are payable over periods up to five years. The remaining advances of

\$25,571,000 at December 31, 1976 represent financing on residential houses included in work in process and finished goods inventories, which will be assumed by the purchasers of the houses upon their completion and sale.

9. Mortgages, Debentures and Long-Term Debt

	1976		1975	
	Current Portion	Total	Current Portion	Total
	(thousands of dollars)			
Mortgages and debentures relating to development land and properties —				
Mortgages				
7½ % to 11% due to 2008 on revenue properties	749	54,823	—	—
6% to 12% due to 1987 on development land	11,934	48,486	—	—
Debentures				
9% due to 1991	300	9,700	—	—
7¾ % convertible subordinated due in 1989	—	7,091	—	—
	12,983	120,100	—	—
Current portion	—	12,983	—	—
	\$ 12,983	\$107,117	\$ —	\$ —

Substantially all development land and properties are pledged as security for the 9 per cent debentures and 7¾ per cent convertible

subordinated debentures under specific and floating charges.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

	1976		1975	
	Current Portion	Total	Current Portion	Total
	(thousands of dollars)			
Long-Term Debt				
5 7/8 % to 8 % first mortgage sinking fund bonds due to 1992	2,119	35,807	1,919	38,524
Debentures				
10% payable in U.S. dollars due 1981	1,000	25,500	1,017	25,430
10 1/4 % due in 1980	—	20,000	—	20,000
Prime bank rate plus 1 1/4 % (minimum 9%) due to 1983	—	—	5,600	28,400
11 3/4 % due to 1995	1,452	28,452	526	29,026
11 1/4 % due to 1996	2,500	50,000	—	—
7% to 9% due to 1981	453	1,742	540	1,806
Term bank loans at prime rates plus 7/8 % to 1 5/8 % due to 1982 of which \$18,029,000 is payable in U.S. dollars	1,383	60,275	1,617	8,931
6% to 12% mortgages due to 1992	285	2,854	256	2,448
6 1/2 % convertible debentures due in 1992	—	—	—	2,779
5% to 13% notes due to 1986	4,283	16,318	1,382	7,191
Non-interest bearing notes due to 1981	344	1,621	333	2,237
	13,819	242,569	13,190	166,772
Current portion	—	13,819	—	13,190
	\$ 13,819	\$228,750	\$ 13,190	\$153,582
Total current portion	\$ 26,802		\$ 13,190	

First mortgage sinking fund bonds and non-interest bearing notes in the total principal amount of \$20,790,000 at December 31, 1976 and \$22,389,000 at December 31, 1975 assumed on the acquisition of subsidiaries, are shown after deducting \$1,031,000 and \$1,183,000 respectively, of interest imputed at rates of 8 1/4 per cent and 8 1/2 per cent.

A substantial portion of the properties, plants and equipment are pledged as security for the first mortgage bonds, debentures, term bank loans and other secured debt. Trust indentures pertaining to the first mortgage bonds and debentures contain the usual restrictive covenants covering the issuance of additional long-term debt and the payment of dividends.

Included in term bank loans is \$42,000,000 repayable in equal instalments from 1978 to

1981. Under the terms of the loan, the company may repay all or any part without penalty and redraw up to the maximum which is reduced by \$10,500,000 per annum over the repayment schedule. At December 31, 1976, \$25,000,000 of the loan had been repaid and, accordingly, short-term borrowings of an equal amount have been classified as term bank loans.

The following payments are required in the next five years to meet long-term debt installment, sinking fund and purchase fund provisions:

	Mortgages and Debentures	Long-term Debt
	(thousands of dollars)	
1977	\$ 12,983	\$ 13,819
1978	16,570	29,331
1979	6,650	23,092
1980	5,116	44,075
1981	4,968	43,172

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

10. Capital Stock

Authorized

5,000,000 preferred shares — par value of \$20 each issuable in series of which 457,978 are designated as Series A \$1.10 cumulative convertible; 1,205,970 are designated as Series B \$1.20 non-cumulative convertible; 43,127 are designated as Series C non-dividend bearing convertible and 1,726,476 are designated as Series D \$1.50 cumulative convertible. The Series A, B, C and D preferred shares carry voting rights and are redeemable from \$20 to \$24 each subject to various conditions.

15,000,000 common shares — without nominal or par value.

Issued and Fully Paid

	1976		1975	
	Shares	Amount	Shares	Amount
	(thousands)			
Preferred shares — Series A	123	2,455	125	2,496
— Series B	848	16,969	915	18,292
— Series C	43	863	43	863
— Series D	324	6,485	—	—
Common shares	11,885	140,755	11,522	134,442
		\$167,527		\$156,093

Common shares are shown after deducting 806,151 shares at their issue price of \$15 per share, which were received as a result of previous shareholdings in companies acquired.

The details of shares issued and fully paid are as follows:

	1976	1975
	(thousands)	
Preferred		
Balance beginning of year	1,083	1,158
Issued in the year —		
At \$22.50 in exchange for shares of a subsidiary	324	—
At \$20.00 on conversion to common shares	(69)	(75)
Balance end of year	1,338	1,083
Common		
Balance beginning of year	11,522	11,125
Issued in the year —		
At \$13.913 on the conversion of long-term debt	200	229
At \$20.00 on the conversion of preferred shares	69	75
At \$7.90 to \$21.65 under the purchase plan and on the exercise of options and warrants	94	93
Balance end of year	11,885	11,522

The following shares are reserved for issuance:

Preferred

734,000 series D pursuant to an arrangement to exchange the minority shares of a subsidiary.

	1976	1975
	(thousands)	
Common		
At \$13.913 for the conversion of debt	—	200
At \$20.00 to \$24.00 for the conversion of preferred shares	2,072	1,083
At \$7.90 to \$17.00 for the exercise of options and warrants	330	447
	2,402	1,730

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Stock Option Plan

Options have been granted whereby common shares may be purchased by employees at a price equal to 90 per cent of market on the granting date. The details of outstanding options are as follows:

	1976			1975		
	Options held by			Options held by		
	Directors & Officers	Others	Option Price	Directors & Officers	Others	Option Price
	(thousands)			(thousands)		
Beginning of year	18	14	\$ 7.90 to \$16.54	33	18	\$ 7.90 to \$14.75
Granted	—	—	—	6	4	\$16.54
Exercised	—	—	—	21	8	\$ 7.90 to \$14.75
End of year	18	14	\$ 7.90 to \$16.54	18	14	\$ 7.90 to \$16.54

Stock Purchase Plan

Under the terms of the stock purchase plan trustees have purchased, at a price equal to approximately 99 per cent of market, and hold 230,790 common shares for the benefit of employees who are directors or officers and 68,579 common shares for the benefit of other

employees. The participants pay for the common shares over a period of seven years together with interest calculated at 5 per cent per annum. The shares are held as security by the trustees until full payment has been received.

11. Contributed Surplus

Contributed surplus increased by \$811,000 during the year pursuant to the issue of

Series D preferred shares at a premium of \$2.50 per share.

12. Income Taxes

The components of the provision for income taxes were as follows:

	1976	1975
	(thousands of dollars)	
Current		
Federal	23,300	21,100
Provincial	9,100	7,300
Foreign	4,500	1,100
	\$ 36,900	\$ 29,500
Deferred		
Federal	7,000	5,700
Provincial	2,800	2,000
Foreign	400	200
	\$ 10,200	\$ 7,900

The sources of long-term differences between income for financial statement purposes and tax purposes were as follows:

	1976	1975
	(thousands of dollars)	
Excess depreciation for tax purposes	10,500	5,817
Prior years losses applied to reduce taxable income	—	1,728
Other, net	(300)	355
	\$ 10,200	\$ 7,900

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

A reconciliation of the company's effective income tax rates to the normal federal income tax rates is as follows:

	1976	1975
Federal income tax rates	46.0%	47.0%
Federal tax incentives for manufacturing and processing	(2.5)	(2.8)
Provincial income tax, less federal abatement	2.7	1.8
Foreign income subject to lower effective tax rates	—	(1.9)
Federal corporate surtax, capital gains benefits and other, net	(.4)	0.1
Effective income tax rates	45.8%	44.2%

Canadian federal income tax regulations provided a one per cent rate reduction in each of the years from 1973 to 1976.

No significant decrease in deferred income taxes payable is anticipated within the next three years. Provisions have not been made

for Canadian income taxes on undistributed active business earnings of foreign subsidiaries inasmuch as such earnings are being reinvested in foreign operations. Provision has been made for taxes on "Foreign Accrual Property Income" as defined by the Income Tax Act (Canada).

13. Net Income per Common Share

The weighted average number of shares used in calculating net income per common share is as follows:

	Canadian		United States	
	1976	1975	1976	1975
	(thousands)			
Basic and Primary				
Weighted average common shares	11,749	11,364	11,749	11,364
Shares pertaining to stock options	—	—	125	73
	11,749	11,364	11,874	11,437
Fully Diluted				
Weighted average common shares	11,749	11,364	11,749	11,364
Shares pertaining to				
— conversion of debt	107	266	107	266
— conversion of preferred shares	1,181	1,119	1,181	1,119
— options and warrants	417	450	138	73
	13,454	13,199	13,175	12,822

Basic and primary income per common share have been calculated after reducing net income by \$1,345,000 in 1976 and \$1,314,000 in 1975 being the dividends on Series A, B and D preferred shares.

Net income used in determining fully diluted income per common share has been increased by \$136,000 in 1976 and \$120,000 in 1975

being the after tax effect of interest on debt assumed to be converted. Net income was further increased for purposes of calculating Canadian fully-diluted income per common share by \$398,000 in 1976 and \$430,000 in 1975 to give effect to an imputed return of six per cent on funds which would have been available on the exercise of options and warrants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

14. Commitments and Contingent Liabilities

Outstanding commitments relating to the construction of plants and the purchase of equipment amount to approximately \$21,600,000 at December 31, 1976.

Indebtedness and contract obligations of other companies have been guaranteed up

to \$3,900,000 at December 31, 1976.

As a partner in various unincorporated joint ventures, the company is contingently liable for all joint venture liabilities. As at December 31, 1976 joint venture assets exceed liabilities in all ventures.

15. Additional Information

Prices and Incomes Controls

The Canadian operations of the company are subject to the Anti-Inflation Act (Canada) and its regulations under which selling prices, margins, dividends and compensation are restrained. The company has complied in all material respects with the controls.

Retirement Plans

Retirement plans exist under which employees are eligible to participate after varying years of employment and are eligible for benefits at age 65. Contributions to plans for salaried and hourly employees charged to income were \$3,050,000 in 1976 and \$2,316,000 in 1975, including prior service costs. An unfunded liability of approximately \$5,500,000 at December 31, 1976 is being funded and charged to income over periods up to fifteen years.

Remuneration of Directors and Officers

In 1976, aggregate direct remuneration paid or payable by the company and its subsidiaries to 20 directors, 2 of whom were also officers of subsidiary companies, and 3 past directors, was \$153,000. Aggregate direct remuneration paid or payable by the company

to 19 officers, 4 of whom were also directors, was \$1,547,000. In 1975, aggregate direct remuneration paid by the company and its subsidiaries to 20 directors, 2 of whom were also officers of subsidiary companies, and 2 past directors, was \$257,000 and aggregate direct remuneration paid to 13 officers, 3 of whom were also directors, was \$1,286,000.

Reduction of United States Income Taxes

The reduction credited to retained earnings resulted from the sales of investments and revenue properties acquired at costs which were less than their tax bases.

Comparative Figures

Certain 1975 figures have been reclassified to conform with 1976 financial statement presentation.

Capitalized Interest Costs

Interest costs associated with the holding and development of land are capitalized in order to achieve a better matching of costs and revenues. Had these interest costs been expensed as incurred, net income for 1976 would have been reduced by approximately \$1,400,000.

Proportion of Revenue by Industrial Category

	1976	1975
Building materials	23%	24%
Cement	13	14
Housing and land development	26	20
Construction	16	19
Marine	6	8
Chemicals and fertilizers	7	9
Investments	9	6
	100%	100%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

16. Replacement Cost Information

The impact of the rate of inflation experienced in recent years has resulted in replacement costs of inventories and productive capacity that are significantly greater than the historical costs of such assets reported in the company's financial statements. Concurrently, technological improvements and design changes have generally increased the productivity of asset additions.

The company's annual report on Form 10-K as required by the Securities and Exchange Commission, which is available upon request, contains information with respect to the December 31, 1976 replacement cost of inventories, development land and properties and fixed assets, together with the approximate effect which replacement cost would have on cost of sales and services and depreciation expense for the year.

17. Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 1976 is as follows:

	Three Months Ended				Year Ended December 31
	March 31	June 30	September 30	December 31	
	(thousands of dollars)				
Revenues	\$171,925	\$234,551	\$237,189	\$244,684	\$888,349
Gross profit*	41,545	62,712	73,503	79,502	257,262
Net income	7,456	15,270	17,900	15,075	55,701
Net income per common share					
— Basic	\$ 0.61	\$ 1.28	\$ 1.50	\$ 1.24	\$ 4.63
— Primary	0.61	1.27	1.46	1.24	4.58

*Gross profit is defined as revenues less cost of sales and services excluding depreciation, depletion and amortization.

AUDITORS' REPORT TO THE SHAREHOLDERS

COOPERS & LYBRAND
CHARTERED ACCOUNTANTS

Montreal, Canada
February 9, 1977

We have examined the consolidated financial statements of GENSTAR LIMITED and subsidiaries as at December 31, 1976 and 1975 as set forth on pages 14 through 28 of this report. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of GENSTAR LIMITED and subsidiaries as at December 31, 1976 and 1975 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Chartered Accountants

